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NEI's Real Estate Report

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Hold Emotions at Bay During Real Estate Transaction

by Broderick Perkins

Buying or selling a house -- or at least the decision to do so -- is fraught with emotional bombshells. As you approach the prospects of buying your next home or investment property or selling either, for that matter, keep in mind that you're about to go through a Grand Canyon of emotional ups and downs.

One sales training website I came across says, "People buy products to gain emotional rewards and justify buying with logical reasons. Your ad copy must trigger emotion(s) that will persuade your prospects to buy your product."

Having spent a few years in various sales positions, I can tell you the above is very true. The reason people buy a lot of products is because of the emotional factor. A University of Florida study on emotions and their effects on the buying process, headlined that "Americans More Likely to Let Their Emotions Do the Buying." The study contends that "emotions were nearly twice as important as knowledge in buying decisions."

In fact, sales training courses have techniques, such as the Embarrassment Close, where the sales person makes the consumer feel embarrassed for not buying. The Emotion Close is designed to trigger identified emotions that push consumers into signing the bottom line. Sales Training University even has a course entitled: "Emotional Response Marketing - The Key To Producing Results."

Where do you stand with your emotions in the process?

It's not that emotions have no place in the real estate purchase process. I'm as guilty as any other American consumer of buying because I liked the way a product appealed to my pride, sense of image, or even covetous desires to just have more than the Joneses. So don't think you're going to be able to buy a house with an emotionless stoicism to ensure your decision is only logical. In fact, it shouldn't be just logical.

If we all purchased homes based on what was logical -- we would be living in the most basic property that met our basic needs. Besides, the 1,200 square foot, \$200,000 condo protects me from the elements as much as the 8,500 square foot, \$2 million estate. Thus, there's somewhere in the middle where you should aim your buying arrow.

The UF study pointed out "marketers should focus more on understanding how to connect with their audiences

on emotional as well as intellectual levels," and encouraged buyers to understand what is going on with themselves emotionally as they make a decision -- especially on big-ticket items.

Frankly, part of the real estate frenzy of the last several years was purely emotional driven. Yes, a lot of money was to be made in the hottest of markets, however, it was the emotional high from believing in the instant riches that would follow the purchase that got more people into real estate than the fact that it is a good investment. Real estate investing has always been a great investment. What's interesting is that any investment expert will tell you to buy low and sell high on your assets -- not buy high and sell higher. But the emotional exuberance of buying a house with a \$25,000 deposit and flipping it in 6 months to the tune of a \$100,000 profit, continued driving prices up and markets hotter.

Now that the markets have returned to normal -- the commonsense investor and home buyer can really profit from approaching the transaction from a left-brain, number-crunching approach, balanced with the emotional joy of owning a really nice house.

As you walk through houses for sale, the old hand agents will still tell you, "You'll just know when you've walked into 'your' house." And they are exactly right. The commonsense side of the decision is: can I afford it, does it meet within our financial limitations? (The logical approach.) Meanwhile, there should be the balance of: "Wow ... this is the place because I feel at home." (The emotional response.)

And with that, I'll leave you with a totally emotional greeting: Good luck and happy buying.



*The most precious gift is that of life...
Let's take this day to celebrate that special
person who gave birth to you... Mom!*

Happy Mother's Day!

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Property Sales Tax Breaks

by Phoebe Chongchua

Real estate prices are being driven up by the purchase of second homes, which account for as much as 40 percent of the market.

"There's so much equity that's been built up throughout the last five years or more. People don't want to pay capital gains taxes which can be as high as 30 percent of the gain," says attorney David Greenberger who is president of 1031 Exchange Advantage, Inc.

He says investors can pay no sales tax on their investments regardless of whether or not they lived in them previously by using IRS Sections 121 and 1031.

Many people are familiar with IRS Section 121 -- the homeowners' exclusion. This law applies to your principal residence and allows a gain exclusion of \$250,000 for single people and \$500,000 for married people filing jointly. The gain exclusion funds do not have to be reinvested. There are requirements, such as the property must have been your residence for at least two years out of the past five-year period.

"[The 1031 exchange] can even be used on a personal residence that's converted into an exchange property, and the way you do it is you move out of your residence and a year later it can be an exchange property," he says.

A 1031 exchange is basically an unlimited tax break -- as long as you roll the money from the investment, non-owner-occupied property into another real estate purchase within six months, you will not incur property sales tax.

Combining Sections 121 and 1031 can create an even greater tax shelter for your real estate transaction. If a couple lives in a multi-family unit building, Section 1031 can be used to exchange the portion of the property that they do not live in and no taxes on the transaction are incurred when they purchase another real estate investment property. Section 121 can be applied to the unit the couple lives in.

"In this way, the unit they reside in is sheltered up to \$500,000 in gain, and the remainder of the building is valued and exchanged as investment property under section 1031," Greenberger says.

Dividing the value between your residence and your investment property can be determined by the calculation of square footage or an appraisal of the unit that you are living in.

"You don't ever have to pay capital gains taxes if you plan it, but what is required is that your next move always be a trade into something else ..." he says.

Using the 1031 exchange, you can buy an investment property and, after just one year you can live in it. Greenberger also says that you can sell one investment property and exchange it for more than one property.

He says, "The clear victory comes when the taxpayer who resides in a mixed-use property takes advantage of Sections 121 and 1031 to remove all taxes on gains and diversify into other properties." Greenberger adds "Clearly, living in a property that appreciates and does not present you with a tax bill when you leave makes for a very welcomed stay."

Thinking of buying or selling a home in the near future, please call

ANTHONY NEWMAN

for a personal interview and property assessment with no obligation.

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5 Cinco de Mayo



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