Further Comments and Additional Input Regarding the Nov. 25, 2010, Column,
Jeffco Homeowners Can Be Thankful for Our Healthy Real Estate Market

By Jim Smith

Everyone wants to "buy low, sell high" but it's not as simple as that in real estate. First of all, you have to factor in the cost of money.

As of today, with a typical interest rate of 4.25% for a 30-year fixed loan, the monthly payment on a $250,000 loan (minus escrow for taxes and insurance) is **$1,230**. If you wait until interest rates rise to 5.25%, your payment will be **$1,381**. That's $151 difference, or over **$54,000** in additional interest over the life of the loan.

If you have a house to sell before you can buy, and you wait until next year to sell because you think you'll be able to get a higher price, you need to consider not only whether the financing cost to your buyer will be higher, but also whether you'll get as good a deal on the house you want to buy.

In other words, if you wait until you can get more for your house, then you'll also pay more for the house you buy — if it's in the same market. It's great when you can sell in a market like much of Jeffco which has not declined and buy in a market which has declined substantially. If you're looking for long term capital gains, buy in an area which has seen substantial capital loss, but expect to hold it for at least five and possibly ten years.

Many sellers assert that they don't want to "lose money" on their sale. They paid "x" dollars for their home and have put in "y" dollars in improvements, and to accept less than "x+y" would be to "lose money" on the sale of their home. To me, that's a short sighted attitude.

First of all, you have lived in this house for a number of years. While it's great if you can live for "free" or "be paid" to live in that house in terms of what you end up selling it for, it can't always be that way. Be grateful (after all, this is Thanksgiving week!) that you didn't buy in Las Vegas five years ago and are trying to sell now. It's amazing to your friends in other cities and states that you can sell and lose so <u>little</u> of your original investment! Consider the following email I got from a client who sold his home (at a "profit") in Wheat Ridge and just bought in Las Vegas: "We bought in our favorite area, Summerlin. It is a age restricted community that we have always liked a great deal. The owners built it 5 years ago, paid 456K plus upgrades, listed it for 285K and our offer of 270K cash was accepted. It is exactly what we have wanted, 2 bedrooms, 2 baths, den/office with a living/dining/kitchen/great room. Great backyard with lots of privacy." Aren't you grateful you're selling here? Again, happy Thanksgiving!

Secondly, if it doesn't pay you to stay in your home, or it costs you to hold on to it in taxes and insurance, why not sell now and "take your loss"?

I took a loss myself on the sale of our home in Golden's Beverly Heights. Rita and I had paid $495,000 for it five years ago and sold it this spring for $467,000 — minus a commission to the buyer's agent. Our cash flow has improved from unloading it, however, and we're "moving on." We enjoyed living in that house for over 4 years. We paid taxes and insurance on it and "paid" $50,000 in lost equity—about $1,000 per month of use. I've made considerable money in other real estate transactions over the years. I can't bemoan any one loss.

In my column, I explained why a subdivision like Green Valley Ranch, built during the boom in subprime mortgages, has suffered more foreclosures and therefore seen home values plummet more than in existing subdivisions, where there is less concentration of those loans.

Norm Lewis of Guild Mortgage responded that appraisers working for those home builders were also to blame. He writes: "I have always laid the appraisal problems at the feet of builders who hired their own appraisers and whose employment was subject to getting the values the builders wanted, rather than having anything to do with reality. Hence the new home purchasers who tried to sell within a year or two and discovered that they were way upside-down in their home, even in a good market… We noticed that for years, way prior to the big meltdown. There were two things that an observant person could see coming way ahead of time -- the trouble with sub-prime loans and with builders manipulating values."

Shelley Ervin of Clarion Mortgage added this after reading my column: "I agree, it is a great time to purchase real estate. Interest rates have started increasing, but are still historically low. These artificially low rates combined with low prices have created a once in a lifetime opportunity to make an investment in real property that we'll be telling stories about in 10 years."