

The Business at Hand >> It's a good time to invest in real estate

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As the real estate market soared through the early part of the last decade, it was almost impossible to buy a seashore investment property capable of boasting anything close to a positive cash flow.

Years ago, such properties carried themselves with ease when purchased with a 20 percent down payment. The rental income more than covered the cost – mortgage, taxes, insurance, utilities and maintenance – yielding a tidy profit.

Seashore property was an easy sell. Investors bought and sold, rolling the profits as they moved to a bigger, even more profitable unit closer to the beach.

It worked really well for many years, until it didn't. Long before the seashore investment market collapsed, the positive cash flow ceased to exist. After a certain price point, the numbers wouldn't work. Properties were trophies. The market soared; the profit came when the property was sold, until it didn't.

There's nothing easy about earning a dollar in the real estate market, particularly in this economy. Those who looked at the horizon and hoped for the best, but prepared for the worst, have survived the downward spiral a lot better than those who tried to simply ride the wave; it's been a pretty bumpy ride.

Successful people are not those who have never failed, but are those cautiously optimistic, rugged individuals, who plan ahead and have the ability to think outside the box. Successful entrepreneurs also have extraordinary discipline; the ability to sacrifice, save and delay gratification in favor of a larger reward in the future.

Real estate investment is not for the faint of heart.

A few years ago, I wrote about George Christofely of the 1031 Exchange Specialists, a local company otherwise known as a "qualified intermediary" providing the expertise for the tax-saving tool known as the tax deferred investment strategy, or "1031" exchange.

A tax deferred exchange is a method by which a property owner trades one property for another without having to pay any federal income taxes on the transaction. Ordinarily, the property owner is taxed on any gain realized. In an exchange, the tax on the transaction is deferred.

"The IRS is saying that taking a large percentage of the profit would cripple a business owner or investor, preventing him from expanding," said Christofely, who is also a Certified Public Accountant.

I met Christofely years ago at an open house when the market was beginning to tank. Gathered with a group of professionals, a delicious buffet and congenial conversation about everything from the weather to the glut of single family homes was interrupted by his arrival. He was holding court with the best and brightest in the business and they were hanging on his every word.

"Who is he?" someone asked.

The answer: "He's brilliant. Want to know what's going on in the market? Pick his brain. He's the 1031 exchange guy, incredibly knowledgeable. The guy's amazing."

The ringing endorsements of his brainpower were not exaggerated. The guru of the wealth-building investment known as the 1031 from which his brilliance emanates, he studies the market and does a stellar job of marketing his business, too.

Christofely maintains a Facebook page, updated daily with sage advice. Last week, he wrote a post suggesting that the current decline in property values has a silver lining; a positive cash flow for seashore investment property, not seen for more than a decade, is back.

The silver lining to a dramatic drop in value; shore properties, he said, are a great investment and cost-free vacation spot for their owners. I was intrigued.

"The market has declined about 25 to 30 percent since the height, that's a fair assessment," Christofely said. "Interest rates are at their lowest in who knows how long, about 3.8 to 4 percent right now. Some lenders are asking for 20 percent down, some 25 percent, but no matter what, it's almost a historically-low interest rate."

Investment properties in the \$400,000 to \$600,000 range, he said, are generating a positive cash flow.

"In theory, you have 12 weeks of inconvenience for 40 weeks of pleasure in a property that isn't costing you a dime.

"It's a good time to get into the market, I don't see a downside," he said. "The numbers won't work with some properties, but it's a lot better than it used to be. Even if it's a little negative, you get to use the property."

Christofely says he "looks at every angle" to facilitate a sale, spur the market.

"We ought to be promoting this," he said. "If you have \$100,000, why put it in the bank to earn 1 percent interest? What are you losing? You can use the property, come down on the weekends in the offseason, enjoy the family. You have to be creative, educate people. In this market, people aren't going to just knock at the door.

"My business is very dependent on the real estate industry, so I try to come up with different ideas to get people thinking," he said. "You have to be active and proactive, keep your business moving."

Christofely, who studies trends on the horizon, said we need to prepare for change. Rentals, he said, are the new reality.

The demand for rentals is "the highest ever," and not just seashore rentals. This is where you see him start thinking outside the box. He spots a trend.

"Rental prices have gone up pretty steadily," he said.

The baby boomers, he said, are aging; the younger generation moving into adulthood is a decidedly different bunch. The wave of the future is not more of the same.

"A lot of kids are coming out of college with high debt, and no job," he said. "They want toys and gadgets; they're not worrying about saving for a deposit on a home. They don't want a home, they want to be mobile.

"Most college-aged kids and those in their 20s are not settling down, they're not coupling, they're not getting married until they're 30 or 35," he said. "Fifty percent of them lived through divorce, grew up with a different lifestyle, tough financial times. They're not looking to get married.

"Our parents had wealth and little debt," he said. "They lived frugally. Things are different now."

The region, he said, is depressed.

"I'm seeing a change in the atmosphere," he said. "You just keep plugging away. It's all about opportunity. Right now there is a lot of opportunity, but not everyone has the wherewithal to take advantage."

The situation is not hopeless, but his optimism is guarded. Figures due out this week – pending home sales, durable goods orders, consumer confidence and GDP figures – will help gauge the mood of US consumers. The National Association for Business Economics, business spending, employment and house construction are poised to pick up this year.

Christofely says he thinks we've hit the bottom.

"We went through a couple of rough years," he said. "Housing starts are up locally; we're even seeing some properties being built on spec again. Properties are selling, prices are down; it's a good time to buy."

With the national debt set to hit \$16 trillion and government spending escalating, Christofely said he thinks that taxes will go up; we should be prepared.

"I think they'll jack up the capital gains rate on investment, too," he said.

There is trouble lurking; the number of people on governmental assistance is at an all-time high. Unemployed people can collect checks for two years.

"More and more people are hitting the bottom rung," he said. "In the past, we never thought this was possible. We're in a depressed market right now, people are struggling. They're not going out to eat; they're not spending, and look at the price of gas. We're struggling, not spending, but government is spending like it's the end of the world. The average worker is barely holding onto his job. So we have to keep these things in mind.

"Where do I think the real estate market is heading? If we can show people that property is starting to make sense from an investment sense, it should start picking up."

The shore market looks stable, he said. Mainland properties, he said, could be in for a rougher ride.

"We're dependent on the casinos; that's what fueled the growth and that's what is hurting now," he said. "Our economy gets hit pretty badly in a downturn. You have a Burger King, Wendy's and a flower shop out of business on Route 9. As long as the casinos are not doing well, I don't see how our economy on the mainland rebounds.

"Well established businesses are failing, they're laying people off," he said. "Unemployment only appears to have gone down because people fell out of the system, they've just given up."

"So we have to think outside the box," he said. "The old routine, doing the same thing and hoping for different results is not going to work.

"People still want to come to the shore, they still want to take their families to the boardwalk, go on the rides, eat pizza and Johnson's Popcorn," he said. "They still want ice cream and salt water taffy.

"One thing that makes me feel confident is that there are several Realtors who are bringing their children into the business," he said. "They feel really good about the future. Is it a trend? I hope so. I think it's a positive that real estate is a good investment and a good business to be in, for the long term. Ocean City is a wonderful place to live; having your own business in town is a great way to make a living."

The economy lends itself to rentals. A lot of folks lost their jobs and lost their homes, he noted. There is a buzz to recreate the year-round community that was lost during the boom, he noted.

"Maybe you do that through rentals," he said. "Maybe the wave of the future is year-round rentals. The demand is there, do we start looking to attract renters? For people who have a property they don't want to sell at a depressed rate, maybe a rental is the answer. Why not live on the island? We have great schools, a community center, lots to do."

Now's the time to buy, he said, for there is certainly someone waiting to pay the rent.

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