

Seven Top Of Market Indicators By John V. Kamin

House price gains have startled potential homebuyers and homeowners. For many years, we have been urging subscribers to buy their own home plus one to five more houses to rent out for cash flow. We urged those who decided to move to not give up their old house when they bought a new house, but to keep the old one and rent it out for cash flow instead – make long term capital gains.

PROBLEM: One subscriber, an owner of a rental house, correctly points out that lenders want to charge her more interest for a loan on a rental house than on an owner-occupied house, perhaps an extra ½% interest or so, depending upon your credit. Even with 2004 easy lending, low interest, mortgage-making atmosphere, lenders still are a little tougher on financing rental houses than they are on owner-occupied properties. Lenders assume that owner-occupied homes have a somewhat increased chance of paying back the loan, whereas rental houses might be “bought on spec. (speculation.)” So, lenders are more cautious with rentals (or greedier?) I don’t agree with that lender assumption.

Valuable Strategy, Solution and More Tips

If you are going to keep your old house to rent out, while you buy a new one for various other reasons, (better house, more space, less upkeep, lower taxes, etc), I suggest you re-mortgage the old house while rates are cheap; preferably, with a fixed rate mortgage and preferably while you are still the owner occupying the old house (before you rent it out.) That way, once your fixed rate mortgage is in place, you will have a cheap loan on it. Plus...you get your loan money out to apply cash to the new house as you see fit. As long as you keep making the fixed low-rate payments on the old house and its loan, it’s almost impossible for the lender to charge you a higher renter-occupied loan rate. Got it?

More Loan-Savvy Strategies

Moving into a new locale? By all means, get your fixed rate mortgage in place on your present abode before you move and before you change jobs. It’s easier to get a loan while things are “settled” than if you, say, quit your job or transfer to a new area. Refinance your old keeper-house loan first. If it’s almost paid off, perhaps you’d like to replace that old nearly-paid up first loan with a new cheap-rate larger loan, drawing out the money to help buy and finance your new 2nd house.

I am not recommending home equity loans; they are usually not fixed rate loans. Lenders can even have an out – they call the loans if they have some reason or get in trouble. Why have a higher rate home equity loan when you can easily qualify for a lower fixed rate first loan on your old house?

Sure, if you need \$50,000 or so quick money, which you’re going to pay back in 30 to 90 days, perhaps in that single instance you might take out a home equity loan. It would have to be a super-profitable deal, where you could make, perhaps, \$50,000, \$100,000 or \$200,000 on a quick turn.

But, don’t take out home equity loans casually and then blow the money on new cars, vacations or lending to relatives, etc. That could be your financial downfall. When the cars depreciate, when the vacation is over, when the relatives fail to pay back, or in the case of a sudden unexpected medical emergency costing big money. Careful here.

Tips to Recognize Topping of the Housing Market

There will be several signs that you can recognize.

1. Many high-priced deals will fall out of escrow, failing to close the deal. Sometimes these fall-out sale failures will implode for no apparent reason.

2. Interest rates on mortgages will be heading upward. Not just a little, not just once, but will rise quite a bit!
3. The number of listings will increase; houses for sale. (e.g. in the San Fernando Valley area, homes listed for sale today are a small fraction of what they would normally be in more normal property markets. **PREDICTION:** That will change probably 2005 to 2007.
4. Illiquid property owners will start to discount and give ground in negotiations to get the specific sale through. Sellers will be a little more forgiving and desperate and buyers will be less likely to bid above the listing price.

Junk Tanks

5. The “junk” properties will quit selling; those awful properties that need huge amounts of work, are in bad neighborhoods, have bad neighbors or other serious problems.
6. Listing times, (days from listing to actual sale close), will lengthen.
7. Lenders will start to become tougher in scrutinizing applications.

Strategies to Profit

Go beyond the 10 major metro suburban job centers of 1 million populations or more now. Find the blacktop arterial highways that are on the path of developing commercial growth, but which are currently zoned residential or agricultural highway frontage. Buy your kids or grandkids one acre to 20 acres of frontage parcels (preferably with rental buildings); with little or no down payments while you rent out the old buildings to “carry the paper (mortgage).”

Increasing populations, Census Bureau’s figures or our estimates, folks will need a place to live. No, you can’t just stack folks up 30 stories high in central city ghettos, redevelopment neighborhoods and high crime areas. **FORECAST:** The flight to the suburbs will continue, and more people will want to live near where the jobs are and where they work to cut ever-more-congested commuting hassles.

May the forces of the population growth be with you, make you and heirs wealthy. (E.g. Tarzana, home of author, Edgar Rice Burroughs, who wrote all the Tarzan stories and films, never saw a jungle. But...what realtor-author Burroughs did to support himself for many years was to sell building lots for \$5 down and \$5 a month. For \$100 and up, you could buy one of his lots. Today, those same building lots in Tarzana are \$300,000, \$400,000 and up. Commercial properties along Ventura Boulevard go for \$10,000 to \$30,000 per frontage foot. Get that frontage! Write off any interest, property taxes, expenses and depreciation for tax shelter as you gain cash-flow rentals at increasing rents.

THE FORMULA WORKS. I tested it personally over decades! Use foresight and the forces of nature and population growth to make money for yourself and your family!

Highly Predictable But Mostly Ignored?

Latest Fed meeting left interest rates unchanged...for now. But statements issued implied that interest rate rises at the Fed Central Bank level would be forthcoming, probably regularly. Yet markets, especially Wall Street and foreign markets seem to have reacted as though it wasn’t, as though the future hikes in interest rates were not anticipated and are now a “scare.” Doesn’t it seem ridiculous that all the experts, many who found hikes predictable, acted as though it wouldn’t happen, as though this is a kind of anticipated “surprise?” Ridiculous!

Marketplaces have latched onto the possibility of interest rate hikes later this year as an excuse for declines that probably would have taken place anyway (because of rising inflation, stubbornly slow recovery, close disputed November election, Iraq embarrassments and troubles, etc.)

Our advice remains: “Take control of your assets.” Do your refi’s now; fix your coming balloon payments before they come due at low rates. Lock in fixed rate mortgages. Don’t be surprised when ARM’s hike monthly payments! Build some cash and don’t fall into the trap of becoming “property rich but cash poor.”

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