

## **Best Out-Of-State Areas For Real Estate Investing – Part II**

*By John V. Kamin*

E.R. stands for Equity Refugee. This is a term that real estate pros use to describe someone who is selling their expensive house at a big profit, then moving to buy a house some distance away at 50% less and pocketing the difference. E.G. We've met many E.R.s in Los Angeles County who plan to sell a house for around the \$528,000 L.A. median price then move to Oregon, Arizona or another locale. Usually, E.R.s are seniors, often retired, who would enjoy living off the extra interest on the pull-out money.

Location is everything. Even though you may be buying in a cheaper area, it should be a growth and growing area.

### **New Trends. Squeezed Savers/Seniors Rejoice**

1. Since interest rates went up from, say, 1% on six-month T-bills last year to a more normal 4½% now, up comparably on CDs, someone pulling out \$300,000 from the sale of their old home in the Los Angeles metro can up their interest income \$15,000 per year.

2. The house profit would supplement their other sources of income nicely, such as, Social Security, pension, and if they have a trade, odd jobs in their chosen new area. Sound good?

3. CAUTION signs. Many desirable areas where homes are \$100,000s cheaper may be high property tax areas. I like Colorado Springs for example, but new suburbs defaulted a decade ago and left massive debts for sidewalks, utilities and streets to be paid by homeowners, during the early 1990s real estate crunch.

Sure, a home in Colorado Springs suburbs may be cheaper, but the property taxes could be double what your more expensive home paid in the Los Angeles metro area (due to Prop 13 tax limitations).

4. Cost of living myths. Folks moving to smaller towns from the big cities assume that their daily living expenses will be cheaper. But sometimes, small-town expenses are much higher due to less competition on furniture, clothes, costlier shipping in and out, and higher sales taxes and over and above higher property taxes. Careful.

Competition helps keep prices lower on cars, garden equipment and food in major metro areas. But if you have only one or two non-competing furniture stores in your new location, you may actually pay substantially more. The bottom line is before you move anywhere, check out prices in the new local markets; your cost of living could be 10% to 25% higher when you go shopping.

### **Hidden Expenses**

No airport nearby? Shuttles may cost you triple and take hours longer.

### **Tax-Free Profit Exempted**

5. Many E.R.s are lured by the thought of tax-free profits on their original costly home sale -- up to \$250,000 tax free if you lived in the home two out of the last five years and up to \$500,000 if you're married. Not bad. But don't forget your state income tax which can run up to 11% in many areas and cut your profits. Also, don't forget the 6% or so broker's fee on the sale of your costly home which might knock another \$35,000 in commission fees out of your newly-grown "nest egg". You might have to fork over big State taxes to the "Governator" in California even if you qualify for the Federal IRS home sale exemption.

6. Location is everything. Even though you may be buying in a cheaper area, it should be a growth and growing area. Maybe you can make a double tax-exempt profit and resell the home again after two more years! Maybe you won't like the new area and will relocate a second time (because of bad neighbors, different weather, lesser-quality medical facilities that you might need or other reasons).

7. Strategic suggestion. If you're an E.R. relocating to where houses are cheaper, make sure you move to a growth area where you can make even more money, so if you do decide later to move, home prices will continue to grow enough to offset taxes, relocation expenses and to make a second profit.

Here are some suggestions for where homes are cheaper than in Los Angeles metro, Chicagoland, Boston and NYC, but with growth.

Location is everything. Assume nothing. If you move to the boondocks in North Dakota, or mid-Nebraska or other non-growth locations, you may have trouble reselling to get your money out or gain a new profit later on. If you move to a depressed area in Ohio where homes are cheap but the local job markets are shutting down factories, you may not even be able to resell your second location if you don't like it. Careful. It's much better to move to a proven growth area.

#### Suggestions For E.R.s To Double Profits In Cheaper Mid-Size Growth Areas

8. Here are some suggestions for where homes are cheaper than in Los Angeles metro, Chicagoland, Boston and NYC, but with growth. I like suburban Maryland within commuting distance of Washington D.C. no farther than a 45-minute to one hour commute.

A) You can also cross over the Potomac into Virginia and head out toward distant Dulles Airport, another growth area. Remember, metro D.C. changes hands every two to eight years, and government is a growth industry.

B) Another growth area where homes are cheaper is suburban Austin, TX, site of the Texas Capitol. Again, government is a growth industry.

C) Another area (if you can stand the climate) is Houston. Since Enron's collapse, the home market has been weak. But Katrina pushed some new residents into Houston who took up some of the excess home slack. I expect the Houston ports are to grow (and grow jobs, too) during the next decade.

D) A slightly cooler but still cheaper area than Phoenix is Prescott and Prescott Valley, about 90 minutes north headed up toward the Grand Canyon. The Prescott area is a fast-growing area and a center for air traffic control. Not bad.

E) For homes 30% to 40% cheaper, go east of Phoenix along Highway 60, east of Sky Harbor Airport, to Florence and Florence Junction. Big new developments are coming in there, (176,000 acres); a great growth area, just over the Pinal County line/Maricopa County line border, staying close to freeway Highway 60 exits. Maricopa County (Phoenix metro) is a high-cost county and Pinal County is a low-cost "bedroom" county for Phoenix metro jobholders.

F) Heading south along Highway 10 from Phoenix, you can go to the outskirts of Tucson. I prefer the northeast suburbs of Tucson for growth rather than the cheaper seedier suburbs in northwest, southwest and southeast Tucson.

G) Want to stay in California? Silicon Valley/San Jose/Santa Clara has already boomed up from its tech-wreck in 2000. If you can find cheaper homes within commuting distance, fine. But if you try to "go central" in San Jose/Santa Clara, you will pay up big time. They've recovered from the tech-wreck pretty well expect in isolated instances and NTS (Need-To-Sell) property.

H) Fastest growing mid-sized city in California year after year? Bakersfield and environs, outlying suburbs. Strictly agricultural during the last half of the 20<sup>th</sup> Century, Bakersfield is attracting industry and still needs a bigger pro airport. But it keeps growing though you can still buy homes under \$200,000. I'd stay west of town toward Riverwalk, or head north of town along the 99 or Highway 65 (the road to Yosemite). Porterville is too far north to commute to Bakersfield jobs. Stick to Bakersfield suburbs for low-cost growth commercial acreage and highway frontage. Avoid near downtown depressed areas.

#### More Valuable Strategy

9. In general, I'd stick to duplexes or triplexes in your new area if you can manage it. That way you can pocket more of our old home profit, take a mortgage on the multi-unit duplex, triplex, or fourplex, and let the tenants pay it off for you on a 15-year FRM. It won't take long to build up

substantial equity in a growing area and the cash flow from extra rentals will be a welcome supplement to your golden years for a happy retirement.

I) Headed way east? Alabama has cheap homes and is getting new auto factories around Huntsville and Montgomery.

J) Heading even further east, there's growth around Tampa/St. Petersburg. But watch out for bad neighborhoods. If you can find something reasonable near the water but not on the waterfront, you'll avoid those high-priced waterfront properties.

K) Moving south a little from high-priced Boston or New York or Connecticut but still want to be within driving distance of remaining family, old friends? I'd suggest South Jersey for growth within commuting distance to Philly. South Jersey is a vastly different planet in regard to prices and lifestyle from North Jersey (NYC metro). You can still buy homes, nice ones, for \$200,000, \$100,000, and even under \$100,000. If you sell your old home in the high-priced big cities and suburbs for \$500,000, you will pocket quite a profit and collect interest thereon. Again, our duplex/triplex/fourplex advice holds.

Suburban Philly, but over the South New Jersey state line has lower taxes than highly-taxed Pennsylvania, lower property taxes, lower-priced property, and you can move within a short drive of the water. Mays Landing has already jumped greatly in price. But you can head a little farther north between Vineland and the Atlantic coast for cheap homes and cheap property; growth is a little slower, though. I'd suggest frontage on Highway 40 or near Highway 55 exits that could turn commercial and put you in midpoint commuting distance between Atlantic City and Philly metro area jobs.

Summary: if you're going to be an Equity Refugee, pull out a few \$100,000 nest egg from the sale of your old higher-priced home and if you want to get away from the rush-hour crush there are excellent places to relocate. But you'll have to be careful about taxes, costs of living and stick to still-growing areas to double your profits. TIP. Rent for one to three months in your new area before you buy; you may change your mind and negotiate better prices while renting saving \$50,000 to \$150,000.

A duplex is a good idea for non-retirees as well as retirees and younger folks who have a trade of profession and want to avoid the big-city madness. Have fun with your money, that's our motto!

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