

THE BLACK SWAN CONNECTION

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Vacation Real Estate as an Investment

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There are many factors to consider when looking at a vacation property as an investment:

- Determining your Goals and Personal Usage
- Type of Property and Price Appreciation
- Location, Location, Location....
- Costs and Financing Options
- Rentals and Property Management (Coming in next month's issue of "The Black Swan Connection")
- How to Choose a Realtor
- "The New Home" Buying Process

Determining Your Goals

What and where you buy should depend on your motivation. Most people are looking for a property that will have good potential income, as well as an opportunity for future appreciation. Ideally, they would also like to be able to vacation or live there now or in the future. Where you buy should be determined by your **primary** objective – whether that be potential income, future appreciation, short-term return, long-term return or use and enjoyment.

Types of Properties

Single-Family Home (Detached)

Historically, single-family homes have had faster appreciation than attached residences. In markets where they are available, detached homes should bring higher rent and occupancy rates for short-term rental homes. In addition, they typically have larger square footage, along with private screened-in pools. The maintenance upkeep and running costs of a single-family home may be higher than townhomes and condos.

Townhome (Shares a common wall with at least 1 unit)

Townhomes share some of the benefits of detached homes and condos. They ordinarily include exterior maintenance within the homeowners association (HOA) dues, which is a nice

feature for the owner who does not live in close proximity to the property. Townhomes, however, do not typically rent as well as single-family homes for short-term rentals.

Condo (Low Rise – typically 3 stories or less, Mid Rise – usually 5 to 9 stories, High Rise – typically 10 or more stories)

Condos are ideal in areas where there is either limited or very expensive land. Generally, they lack the appreciation of the other categories unless they are within a close proximity to a landmark, such as a beach, city center or entertainment center. They are very low maintenance but can have higher running costs, depending on the efficiency of the condo association. They are ideal vacation properties when combined with a large amenity package. Typically, condos do not rent as well as single-family homes for short-term rentals.

Location

A great vacation home location will be different for each investor, but, generally speaking, the location should be easily accessible, have good year-round demand from travelers, and be relatively affordable. This may also depend on the primary use goal. A ski condo in Vail may suit one investor and a beach condo in Florida another.

There are normally three reasons why location plays an important role in the buying decision:

1. Family vacations. The majority of vacation home buyers are looking for a place they can use to help create family memories. Rental income may not necessarily be of importance.
2. Future retirement. Home buyers may choose a location that meets their goals for retirement. They can use the property for part-time travel during the year and still have rental income to offset the mortgage and property expense for the rest of the year.
3. Vacation property investment. Some investors believe vacation locations are a good choice for a real estate investment. They look to generate rental income to cover expenses, and perhaps generate a profit with an expectation of price appreciation.

If rental income is important, as well as the ability to quickly sell your property, you don't want to have an oversupply of properties in the same location. As a result, the rental rates and resale values will suffer. You should also consider how many weeks will a prime property be renting during the course of a year, year-round or seasonal, such as a ski destination? And, how easy is it to attract renters?

Below is a brief overview of the Orlando market and its key attributes:

- Great location - one hour from either coast
- #1 Tourist Destination in the Country
- 57 Million Annual Visitors
- 52 - week Rental Season
- Significant Rental Income

- Great Weather
- Awesome Theme Parks
- Real Estate is Hot

Orlando is the number one tourist destination in the world, having more than 57 million visitors a year and generating 28 billion in revenue. Central Florida is projected to grow substantially. The baby boomers are hitting retirement age, and many of them will be heading to Florida. Historically, Orlando Real Estate has been priced lower than most other areas in Florida and the United States as a whole. If you are looking to purchase a second home to rent while you are not using it, there is no better place to obtain rental income year-round than Orlando.

Costs and Financing Options

You will need to determine your purchase budget, factoring in maintenance costs and Association fee dues, if applicable, just like any purchase of a residential property as a primary residence. Long-term financing at attractive rates may be available from builders in your chosen destination, as well as your local bank or traditional mortgage lenders.

Financing is always dependent on the strength of the borrower, but normally, and especially in the wake of our financial crisis, be prepared for a 10-30% down payment. With average credit, current mortgage rates will be in the 4-6 % range.

How to Choose a Realtor

Choosing a qualified, experienced Realtor is paramount.

1. Look for a Realtor that has a track record in your area and that specializes in the type of property you are seeking.
2. Ask for a list of recent sales and references. You want someone who is a full-time professional and not a part-timer.
3. Look for someone who has been trained extensively to match you with what are the best real estate opportunities in your selected market.
4. Make sure you understand clearly what the commission arrangement is and whether the buyer will be paying a commission. In Florida, for example, the seller pays the real estate commissions for BOTH the seller's and buyer's agent.
5. To work with a qualified Realtor that is knowledgeable is not only important, but also costs you nothing.

“The New Home” Buying Process: Step- By-Step

Pre-Qualifying for a Loan: In order to give a prospective seller confidence that you can purchase his property, it is important to get pre-approved for a loan. Oftentimes, the seller, or his Realtor, will request a pre-approval letter when an offer is presented. Accordingly, it is a good idea to get pre-approved for a loan from a mortgage lender before you start your search. This process takes approximately 30 days for US citizens and approximately 45 to 50

days for foreign buyers. If you are able to pay cash, that is preferred. This will save you money on interest costs and allow you to be in a stronger position to have an offer accepted. You will be required to provide “proof of funds” if you are paying cash.

Begin your Search: Depending on your goals, your realtor will begin searching for the property that meets your needs. He or she will consider size, floorplan, exterior elevation, features, community, location, amenities and any other preferences you desire.

Make an Offer: Once you find the home you love, it is time to make an offer. Your Realtor will assist you with calculating the amount to offer, processing the necessary paperwork and making the offer to the seller on your behalf.

Negotiate the Contract: Once the offer is given, there is oftentimes a counter offer. This process might go back and forth until a final offer is accepted. Your realtor will help with this process, taking into consideration important factors that go into negotiating an offer such as price, financing, terms, inspections, date of possession, repairs, furnishings, and possible future rentals. Once an offer is accepted, an earnest deposit is required with a fully executed contract.

Open a Local Bank Account: If you are an international buyer, a US Bank account will be needed for the bank management process. You will also need to apply for an International Taxpayer Identification Number (ITIN) in order to operate your vacation home as a rental property. It might be beneficial to retain the services of a CPA (Certified Public Accountant) that deals with international tax.

Complete Loan Application (if necessary): If you need a loan to purchase your home, it is important to have been prequalified before you start your search. Once the inspection process is completed, it is time to obtain financing within the terms noted on the contract.

Title: Your realtor will work with the title agent to ensure that proper title is obtained so that you are confident that the property is free of all encumbrances.

Final Walkthrough & Closing Figures: Your Realtor will help with the important step of conducting the final walkthrough prior to closing and will review the figures so you’ll know them before final closing.

Final Closing: Your realtor should be by your side as you sign all the final paperwork for closing the home and to help ensure that all contract and amendment conditions have been met and completed. Most international owners choose to close by mail.

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