

Real Estate and Real Life ♦♦♦

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Real Estate...A Dirty Word?

Recently I was purging some old papers of my parents' when I came across the actual newspaper ad for the farm house and land that they bought in 1968. They were originally city folks. My father grew up in Oakland and my mother in Lawrenceville. In 1968, an ad for a two story farmhouse, barn and 23 acres of land enticed them enough to uproot us from Lucerne Avenue and move us to the country. My mother had just had her sixth child when we moved. We packed into the tiny 988 square foot farm house and became farmers. One of my earliest memories is planting or harvesting potatoes with my siblings. There wasn't a single red light or grocery store for miles. In the

70's with nine of us now living in three bedrooms, my father, with the help of all of his city friends, cut the top of the farm house off and made it into a five bedroom ranch. In the 80's they sold off a 4 acre parcel and in the 1990s they attempted to sell it several times, coming close once. By then our rural zip code had sprawled into the most popular places to live north of the city. The 'dirt' was worth more than the house. And although they had "location, location, location" going for them, the municipality had made it difficult for developers to develop. My parents finally sold it in 2000 for a figure less than they anticipated but glad to get out from the maintenance.

Being a numbers girl, I figured out that the return on their lifestyle investment over 32 years was a little over 10%. I don't know what they borrowed to change the house into a ranch or to build a big garage or all the time involved in maintaining the grounds, fruit trees and upkeep on the house. But that's all part of the deal when you are living in it, right?

A home is considered a lifestyle asset versus an investment in real estate which generates income. Real estate focused mutual funds and REITS (Real estate investment trusts) make it possible for anyone to invest in large-scale, income producing commercial real estate. Home real estate returns generally match inflation over very long periods of time. Real estate as an investment category has return -7.0% over 3 years, 1.4% over 5 years and 10.1% over 10 years*. In the past it has provided diversification and reduced volatility. Investment real estate does well as an inflation hedge because landlords can raise rents during inflationary periods of time and thus increasing their income and protecting against inflation. Real estate has been hit hard, but for some portfolios, real estate as an investment is still worth digging into. *DJ US Select REIT Tr USD as of 09/30/10.



Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.
— Warren Buffett

An Interview with Jo Ann Wiesen of Sail Mortgage

As a mortgage broker, when do you suggest refinancing? The arbitrary rule of thumb says that a refinance only makes sense if you can lower your interest rate by at least two percentage points. But what really matters is how long it will take you to break even and whether you plan to stay in your home that long. In other words, make sure you consider the amount of time it will take for your overall savings to compensate for the cost of the refinancing.

How to Calculate Your Mortgage Refinance Breakeven Point: If you had a \$200,000 30-year mortgage with a 6.125% interest rate, your monthly payment would be \$1,215. If you refinanced at 4.125%, your new monthly payment would be \$969, a savings of \$246 per month. Assuming that your new closing costs amounted to \$2,400, it would take 10 months to break even. ($\$246 \times 10 = \$2,460$). If you planned to stay in your home for at least ten more months, then a refinance may be appropriate under these conditions

What should buyers know about getting a mortgage in this new age of lending?

Increased documentation to explain your income, assets, debts and credit score are part of some of the changes. The other primary difference is the property appraisal process and appraisal result. The appraisal determines the amount that a lender will be willing to lend on a given property.

The Federal Reserve's new interim rule on appraisals makes it clear that home builders and others can ask an appraiser to consider additional information about a property, including information about additional comparable properties. That's critical to real estate professionals because in far too many cases we're seeing appraisals based on inappropriate comparables.

What can I expect during the mortgage application process? The mortgage application process has six primary points:

1. Personal Data - Full names, addresses, and Social Security numbers of all borrowers.
2. Income - The amount and source(s) of income for all borrowers.
3. Assets - Information on all assets such as checking and savings accounts, stocks and bonds, retirement plans, and other real

estate owned.

4. Debts and Obligations - Information on all outstanding debts and any other financial obligations.

5. Credit History and Scores - Information concerning loans or debts that have been paid, plus any other references to good credit use.

6. Property Information - Specifics on the property you wish to buy, if you've chosen one.

A favorable credit score will increase your chances of finding the best loan with a low rate and low points, since you will qualify for better interest rates than those available to people with credit problems.

An Interview with Nancy Snider from Coldwell Banker

How would you describe the real estate market in Pittsburgh? The real estate market in Pittsburgh is actually very good. The prices are not as high as they could be but properties that are priced right are moving quickly. Part of the reason for the healthy market is the influx of gas and mineral rights employees.

What do you suggest to those who are buying a house? If you are preparing to buy a home in the Pittsburgh market, the best thing you can do is choose a knowledgeable real estate agent by interviewing several or by the referral of someone who has bought a home recently in the area you are looking in. Then once you choose a home, be sure to do your due diligence in having a home inspection, getting a survey and having any other tests done that are recommended. Remember-location, location, location are so important.

And what about to those selling a house? If you are selling a home, once again, choosing your real estate professional is the most important aspect of the transaction. Choose a realtor by interviewing several or by the referral of someone you trust or both. Make sure their marketing plan for your home includes pictures and custom text on as many real estate websites as possible.

Any other thoughts? Also, it is extremely important in this market to not overprice your home. MSN.com had a very interesting article last month on the psychology of

pricing your home. The article's premise is that overpricing tends to invite lowball offers whereas pricing properly can even create bidding war situations as the buyers perceive the great value in your home.

2011 Facts

Social Security beneficiaries will see no increase in benefit checks in 2011. This marks the second year in a row without an inflation adjustment. Inflation has been low in the past two years because of the recession. The last inflation adjustment (5.8%) occurred in 2009. The Social Security Administration tracks inflation using the most recent third quarter that led to an adjustment. So the 2011 adjustment is based on the change in inflation between the third quarter of 2008 and the third quarter of 2010.

The IRS is no longer sending tax forms by regular mail. Electronic filing of tax returns has become so popular that the IRS will no longer automatically mail traditional paper tax forms. Last year the IRS mailed traditional paper tax forms, tables and instructions to just 8 percent of taxpayers. For 2009 96 million taxpayers filed electronically plus another 20 million filed electronically through professional tax preparers. The IRS hopes to save \$10 million a year by not automatically mailing materials.

Traditional hard-copy documents can still be found at libraries, post offices and walk-in IRS offices around the country. After January 1, documents can be ordered via an IRS toll-free number. Materials can also be downloaded and printed from the IRS website (www.irs.gov).

Your referral is my greatest compliment. Thank you for your trust and confidence.

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