



Buy now...
but beware bargains



The American property market has been shaken by the cheap loans crisis, and prices are falling. With a strong pound and a weak dollar, is this the time to pick up a holiday home bargain in Florida? It certainly is, say Orlando estate agents Lesley Dolby and Steve Schaffer, but remember that if a deal looks too good to be true, it probably is

Does buying a property in the Sunshine State still make sense?

It has been said that the only time that we can possibly know when we've hit bottom is when we've started the climb back up! This is true of the US property market, in which opinions tend to vary as to when we can expect that bottom to occur. Ten economists will give you different opinions, but the majority view tends to favour a levelling of the market during 2008.

The main reason for the recent increase of properties on the market is the fallout from the boom in adjustable rate mortgages (ARMs), interest-only loans and 100 per cent financing. These were all popular during the property boom years of 2003 to 2006. Borrowers found it more convenient to pay interest-only, or to take out loans at rates much lower than the market rate for a short term (three to five years) and pay a higher rate later. This kept monthly payments down initially, allowing many people who couldn't have otherwise afforded it to buy a house while they still could.

Lenders became lax, often lending to low income borrowers with poor to mediocre credit ratings. Believing that prices would continue to rise, many caught the 'buy now, pay later' fever. Now that many

of those initial ARM terms are expiring, borrowers are finding their monthly mortgage payments increasing by hundreds of dollars. It's been too much for many to handle, especially when coupled with the increased property tax and insurance costs.

The bright side for today's buyers is that there is an unprecedented choice of properties on the market. In addition, the exchange rate is more favourable than it has been in years. If you were holding off from purchasing during the boom years, then now is a great time to buy.

What sort of bargains are around now?

Most sellers have realised, often through the guidance and experience of their estate agents, that they need to market their property at much lower prices than in 2006 to make them attractive to buyers. As a result, the asking prices are for the most part competitive and attractive. However, many buyers still seem to be offering thousands lower than asking price... and are not successful.

Many buyers think they can pick up a mansion for \$100,000 (£48,700), but it really isn't like that, despite the state of the market. The reason for this, in many cases, is that if a seller bought the property during the boom years, they are often already in negative



equity and simply can't afford to let the property go for any less than the rock-bottom asking price. In those cases, many owners take their property off the market and either wait until things get better or rent the property to a local resident long term.

Are 'short sales' and foreclosures worth looking at?

'Short sale' is the current buzz phrase and many potential buyers have latched onto it. It simply means that the lender has a) allowed the property owner/borrower sell the property for less than is owed, and b), in most but not all cases, write off some of the debt. But buyers of these properties need to be aware that it can take the lender weeks to authorise a short sale. A prospective buyer must be willing to put in an offer, complete with a deposit, and then wait a considerable time to hear if their offer is accepted, so this may not be for everyone.

With both short sales and foreclosures, lenders will still expect the property to be sold for close to the market value. And, in addition to the loan balance owed, which thanks to unpaid interest and penalties becomes much higher in a foreclosure, there are extensive legal fees and costs to the lender which need to be recouped. The closing costs for the buyer in such purchases are generally higher than normal because lenders pass on some of their extra costs to them. The bottom line is that these properties aren't always the bargain that people think they are.

Another consideration when buying short sale or foreclosure properties is that it's very common to see them falling into disrepair. In the months before foreclosure, many owners will let the property deteriorate; some inflict their frustration and bitterness on the property by deliberately causing damage and ripping out items which then need repair and replacement by a buyer. This type of property is generally not a good idea for someone living 3,000 miles away across the Atlantic. A handyman buying such a home may be able to manage, but most UK residents have neither the required local knowledge nor the time to spend in Florida fixing up their own property.

Will getting big mortgages be more difficult?

Yes. As in the UK, American lenders are tightening their policies because of the bad debt problems, and

foreign nationals are generally now required to put down deposits of 30 to 35 per cent. The more you can afford to put down, the more the figures should work for you, creating a more successful investment in the long term. The lower prices in today's market mean reduced borrowing and lower mortgage repayments – and that's especially important when buying an investment property for rental purposes.

What makes a successful rental property owner?

For people thinking about short-term rentals and occasional personal and family use, the owners who are pro-active, hands-on and who use the available tools to market their own properties and monitor all aspects of their property, will stand a much better chance of success than those who sit back and allow someone else to take care of these things. The optimal situation is when owners handle most of their own bookings and payment of their own bills while using a property management company for landscaping, pools, cleaning and maintenance and possible additional bookings.

What type of home should I consider buying?

It depends on what you intend to use it for. In a buyer's market, you can easily find yourself inundated with property choices, but if you're intending to use it for personal vacations and then rent it out the rest of the time, the most popular property is still the single family villa with a private pool in an established neighbourhood. You have more freedom to choose your property management company, how to handle bookings, make improvements to your house and put your personal stamp on it. These are often things which may be dictated to you in the communal environment found with condominiums. Plus, the risk of fire, termite damage, noise from neighbours and special assessment fees (charges levied by homeowner's associations for repairs and renovations) are generally much less in a freestanding private villa than they are in a communal property. HV

Top tips for buyers

- * A good estate agent – realtor – can help buyers find a well-priced property that is neither a short sale nor a foreclosure with their added hassles, and will be there with friendly advice long after the sale
- * Regardless of the type of property, and whether you decide on short or long term rentals, low mortgage repayments are the key to balancing rental income and expenses
- * Property investment should always be considered a long term one, as the recent short term 'make a fast buck' attitude caused most of the current problems
- * Hands-on involvement with your property and lettings usually results in a more successful investment

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