ANNUAL
# HOME ADVISORY

► The Information Homeowners Need

Courtesy of


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# ANNUAL ADVISORY

Homeownership is a privilege, but it's also a responsibility. Even after decades of owning a home, you may still need some help to handle some of its challenges by focusing on the three "M"s of homeownership: maintenance, minimizing expenses and managing debt and risk.

While many people recognize the benefits of annual wellness, financial, vehicle and equipment maintenance visits, an important checkup that you may not have considered is an annual homeowner advisory or real estate review. Why would you treat the investment in your home with less care than you treat your car or your HVAC system?

Consider exploring the following:

- **Do you know the current value of your home? (You can, by obtaining a list of comparable sales in your immediate area, as well as what is currently on the market for sale.)**
- **Have you compared your assessed value for tax purposes to the fair market value in order to possibly reduce your property taxes?**
- **Even if you've refinanced in the last two years, can you save money and recapture the cost of refinancing in the length of time you plan to remain in your home?**
- **Have you considered reducing your mortgage debt with low-earning cash reserves that will not be needed in the near future?**
- **Do you have a record of the improvements you've made to your home since you purchased it? Do you know what items can be included?**
- **Have you considered investing in rental homes in good neighborhoods to increase your yields and avoid the volatility of the stock market?**
- **When was the last time you updated your home inventory of personal belongings? Do you have pictures as well as written documentation?**
- **Have you gotten recommendations of repairmen and other service providers from a trusted source who deals with them more frequently than you do?**

## ANNUAL ADVISORY CONTINUED...

This service is part of my point of difference as a real estate professional: to provide information to help homeowners not only when they buy and sell, but all the years in between, too. My goal is to create lifelong relationships with my customers as their “go-to” person whenever they have a real estate question.

My strategy is to provide reliable, consumer-based information about homeownership on a regular basis through email and social networking. If it benefits you by helping you be a better homeowner, maybe you’ll consider me your real estate professional.

We’re here to serve your real estate needs at all times. By helping you with the three “M”s of homeownership, we can earn your confidence and trust for the next time you move or a friend of yours needs a recommendation.

### REAL ESTATE REVIEW

Area Sales Activity
Current and Sold Homes

Assessment Challenge
How to lower your tax assessment


Refinancing Analysis
Does it make sense to refinance?

Improvement Register
Keep track of capital improvements

Equity Accelerator
Save interest, build equity, shorten term

Home Inventory
Record personal belongings


Rental Opportunities
Benefits of investing in homes

Service Providers
Recommendations

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## AREA SALES ACTIVITY

If you own stock, you probably look at the market occasionally to see if the price is up or down. You might go to an online site to find the current value of your car. It may not indicate that you're going to sell – you're just staying aware of the values.

Some people update their net worth statements with current information on bank accounts, cash values of life insurance, stock prices, mutual funds other investments and, of course, the value of their home. In many cases, a person's home is their largest single asset. Knowing the current value and market conditions may have nothing to do with selling the home, but it can have an impact on other decisions you make. Good information leads to good decisions.

Recent selling prices of homes in your immediate area and how they compare in size, condition and amenities will influence the value of your home. Homes currently on the market similar to the price, size and area of your home would become your competition if you were to put your home on the market.

The number of months of inventory on the market currently will determine whether it is a buyer's market or a seller's market. Real estate experts consider six months' supply is balanced. Less supply favors sellers, and more supply favors buyers. Absorption rate is a term that describes the length of time it will take for the current supply to be "absorbed" by the buyers.

Other things that could affect the value of a home include zoning changes, economic conditions or traffic and transportation flow.

Fair market value is the price that real estate would sell for on the open market without any unusual forces being involved. While the definition is relatively simple, there are different methods of determining the actual fair market value of a home.

## AREA SALES ACTIVITY CONTINUED...

A homeowner could order an appraisal before they put their home on the market, but they would incur the expense of an appraisal and, more likely than not, it wouldn't or couldn't be used by the buyer or their lender. The advantage is that an appraisal is a professional approach by a disinterested party to establish value.

Licensed appraisers use three approaches to value: the market data, the replacement cost and the income approach. The appraiser can put more weight on one approach than another based on his/her assessment of what would be appropriate.

Real estate agents use a similar approach to determine fair market value by performing a Competitive Market Analysis (CMA). Like an appraisal's market-data approach, a CMA looks at recent sales of similar properties, considers properties currently for sale and assesses which homes were unsuccessful in their attempt to sell. This approach is sensitive to supply and demand, and may be more reactive to rapidly rising or declining markets.

Both appraisals and CMAs have a distinct advantage because they show the opinion of a professional, compared to online website estimates, which use raw data and mathematical formulas. Regardless of which method is used, appraisals are estimates; however, some appraisals are more accurate based on the experience of the person making the estimate.

The seller may be the one to put a price on the property, but value is ultimately determined by the buyer when a final sale is achieved.


# UPDATES OR PROJECTS

While most things in a home are for personal enjoyment, it makes sense that an owner would want to recapture the cost of any improvements that are made.

There is a concept in appraisal called “the principle of conformity” that says that the homes in an area should be of similar size, workmanship and amenities. In a lower price-range neighborhood, you wouldn’t expect to see gourmet kitchens or swimming pools. Likewise, in a higher-priced neighborhood, you would expect to have exceptional master bedroom suites, nice landscaping and pools.

The principle of conformity adversely affects price when a home is over-built for an area. The reverse is true if the subject property is less expensive than the surrounding properties; the value will tend to be pulled up by the other homes.

Remodeling Magazine has been producing an annual report for over 30 years that gives an indication as to what a homeowner can expect to recapture on improvements made to their home. The numbers below are national in scope, but state-by-state estimates are available in the Cost vs Value Report.

- Garage Door Replacement (97.5%)
- Manufactured Stone Veneer (94.9%)
- Mid-range Minor Kitchen Remodel (80.5%)
- Wood Deck Addition (75.6%)
- Siding Replacement (75.6%)
- Steel Entry Door Replacement (74.9%)
- Vinyl Window Replacement (73.4%)
- Fiberglass Grand Entrance (71.9%)
- Wood Window Replacement (70.8%)
- Composite Deck Addition (69.1%

# A HOME WARRANTY CAN SAVE YOU MONEY

By now, you've probably filed your income tax and been through your expenses for last year. Money spent on repairs to your home is not deductible, but being aware of how much you spent last year may help you make decisions that could save you money this year.

Sellers often provide a home warranty to buyers to give them peace of mind by limiting some of the out-of-pocket money spent on unexpected repairs for one year. The buyer can renew a home warranty by paying an annual fee, and any homeowner can purchase one for their home, whether they had a warranty when they bought it or not.

A home service contract typically covers mechanical systems and built-in appliances in the home. Many times, these items are not covered by the homeowner's insurance policy. These contracts can also include other things such as pool and spa equipment and free-standing appliances like refrigerators, washers and dryers.

The process is simple: Once a plan is in effect, you call to report a claim. The company will assign a local profession to assess the problem and, if it's covered, they will repair or replace the item. You will only pay a service fee. Pre-existing conditions generally aren't covered.

Home protection plans can range in price depending on area and coverages. Most start around $400-500 a year, which could easily cover the cost for one claim alone.

For more information on home warranties in general, you can go to HomeServiceContract.org to find an association representing some of the premier home service contract providers.

# ASSESSMENT CHALLENGE

Tax assessment and the rates charged by state and local taxing authorities determine the amount of taxes a homeowner pays. While there is not much taxpayers can do about the rates, they can monitor their tax assessment to see if it accurately reflects the market.

Check the property assessment record for common mistakes that can include number of bedrooms, bath, size of lot or square footage of improvements. Documentation is required to verify the errors. If you have an appraisal, possibly from when you purchased the home, it can serve as proof of the discrepancy.

Verify that any applicable discounts are applied, like homestead exemption or senior citizen discounts.

Deadlines are critical, and if a mistake isn't challenged in a timely fashion, the opportunity to lower the assessment can be lost for the year. You'll need to verify the deadlines for your area. The process for a challenge is relatively straightforward and can be done by the homeowner or by professional representation. Some states allow taxpayers to informally discuss the reasons that the assessment should be lowered. If it is a straightforward mistake, a state employee may be able to correct it without a hearing.

In other cases, a hearing with an appraisal review board is requested before a panel of citizens who will listen to testimony from the taxpayer and a representative of the assessor's office. Based on the documentation presented, the panel will make a ruling to lower the value, make no change or, in some cases, raise the valuation.

Recently closed comparable sales are the most common proof presented in a hearing. Comparables should be similar in size, condition and location.  A knowledgeable real estate professional can filter the results generated in an MLS search to identify the most appropriate comparables.

You can also ask for the comps used by the tax assessor to justify the value they placed on the property. You can determine whether there are differences that may not be accurate and present them at the hearing.

If you lower your assessment, you can lower your taxes.

# REASON TO REFINANCE

Regardless of the reason to refinance a home, the basic question to ask is: “Do I plan to live in the home long enough to recapture the cost of refinancing?” There are always expenses involved in refinancing, which can be paid in cash or rolled into a new mortgage.

From a strictly financial standpoint, the break-even point is achieved when the cost of refinancing has been recaptured by the monthly savings. It would take approximately 23 months to recapture $4,000 of refinance costs with a lower payment of $175 a month.

There can be many valid reasons for refinancing. The following are eight of the most common:

1. **Lower the mortgage rate**
2. **Shorten the term so that the loan will build equity faster and be paid off sooner.**
3. **Lower your payment to reduce your monthly cost of housing.**
4. **Convert an ARM to an FRM to stabilize your payment due to concern of rising interest rates.**
5. **Cash out equity to be able to use the money for another purpose.**
6. **Combine a first and second mortgage.**
7. **Payoff higher cost debt such as credit cards, student debt, etc.**
8. **Remove a person from a loan as in the case of a divorce.**

Points paid to purchase a principal residence are tax deductible completely in the year paid. However, points must be spread over the life of the mortgage on a refinance. For that reason, consider getting a “par” value loan with no points. It may have a slightly higher rate, but the interest will be fully deductible and it will lower the cost of refinancing.

Determine the break-even point on your situation by using the Refinance Analysis . Call for a recommendation of a trusted mortgage professional.

# IMPORTANT TAX RECORDS

## Exclusion of Gain on Sale of Home

Homeowners can exclude up to $250,000 of the gain on their principal residence if single and up to $500,000 if married filing jointly. During the five-year period ending on the date of the sale, the taxpayer must have:

- Owned the home for at least two years
- Lived in the home as their main home for at least two years

Ownership and use do not have to be continuous nor occur at the same time.

During the two-year period ending on the date of sale, the taxpayer is not eligible if they excluded the gain on the sale of another home. If gain on the sale exceeds the exclusion amount, the balance is taxed at the long-term capital gains rate.

## Basis of home

The basis of a home is a tax or accounting term referring to the cost in the home. The combination of the purchase price, some acquisition costs that don't have to do with the mortgage, and capital improvements made since purchase contribute to the adjusted basis of the home. It is subtracted from the net sales price to determine the gain.

The closing statement at the time of purchase along with any receipts or cancelled checks for improvements are the documentation necessary to prove the basis in a home. They should be kept in a safe place – for example, digitally, in the cloud.

## Capital improvements

Homeowners know that they can deduct mortgage interest and property taxes from their income tax returns. They also understand that there is a substantial capital gains exclusion for qualified sales of up to $250,000 if single and $500,000 for married filing jointly. However, ongoing recordkeeping tends to be overlooked.

Homeowners should get in the habit of keeping all receipts and paperwork for any improvements or repairs to the home. Existing homeowners need to be reminded as well, in case they have become lax in doing so.

There is more information on the exclusion of gain, capital improvement examples and fillable forms to keep track of the basis in a home and the improvements made available in the Homeowner's Tax Guide.

# RETIRE YOUR MORTGAGE EARLY

Owning a home is the first step to building equity. Tenants build equity, but not for themselves; they build it for the owners.

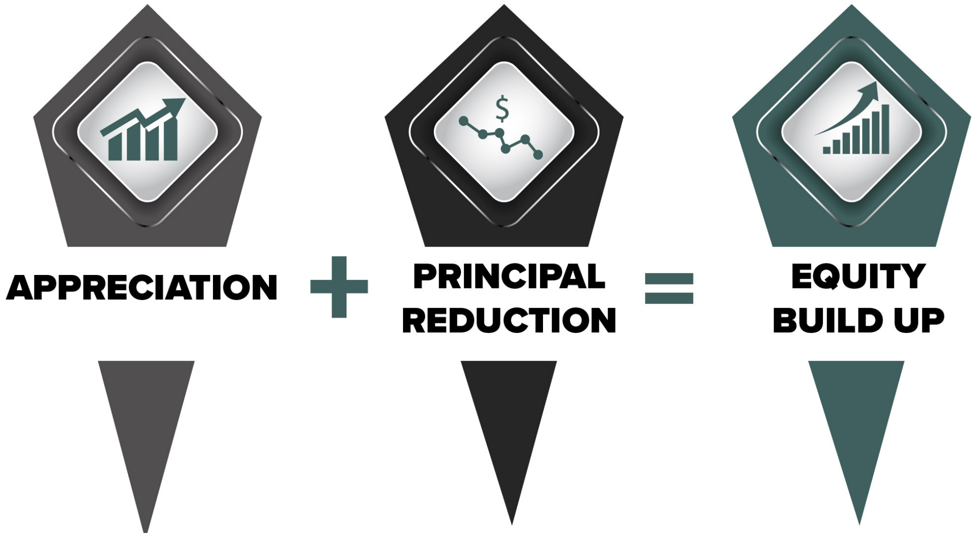
Equity is the difference in the value of the home and what is owed on the home. There are two dynamics that cause this to grow: appreciation and principal reduction.

As the home increases in value, it is said to appreciate. Various authorities will annualize an appreciation rate based on average sales prices from one year to the next. Since appreciation is based on supply and demand as well as economic conditions, it will not be the same year after year.

If you looked at a 10- to 12-year period, some would be higher than others, and there may even be some years that it is flat or has even declined. For the most part, values tend to appreciate over time.

Most mortgages are amortized, which means that a portion of the payment each month is applied to the principal in order to pay off the loan by the end of the term. A $300,000 mortgage at 4.5% for 30 years has $395.06 applied to the principal with the first payment. A slightly larger amount is applied to the principal each following month until the loan is paid with the 360th payment.
If additional principal payments are made, it will save interest, build equity faster and shorten the term of the mortgage. Using the previous example, if an additional $250.00 principal contribution was made with each payment, it would only take 270 payments to retire the loan instead of 360. It would save $69,305 in interest and shorten the mortgage by 7.5 years.

To see the dynamics of equity due to appreciation and principal reduction, look at the Rent vs. Own. To see the effect of making additional principal contributions on your equity, look at the Equity Accelerator.



# HOME INVENTORY

When you need an inventory of your personal belongings, it is usually too late to make one. Sure, you can reconstruct it, but undoubtedly, you'll forget things, and that can cost you money when filing your insurance claim.

Most homeowner's policies have a certain amount of coverage for personal items that can be 40-60% of the value of the home.

Insurance companies usually ask homeowners who have a loss for proof of purchase, which can come in the form of a receipt or current inventory of their personal belongings.

The most organized people might find it difficult, if not impossible, to find receipts for the valuable things in their home. Think about when you're rummaging around a drawer or closet looking for something else and you discover something that you had totally forgotten that you had.

An inventory is like insurance for your insurance policy, so be certain that you list everything possible in case you need to make a claim. Systematically make a list of items by going through each room, along with the drawers and closets. In a clothes closet, you can list the number of shirts, pants, dresses and pairs of shoes, but higher-cost items should be listed separately.

Photographs and videos can be adequate proof that the items belonged to the insured. A series of pictures of the different rooms, closets, cabinets and drawers can be very helpful. When video is used, consider narrating as it is shot and be sure to go slow enough and close enough to see the things clearly.

For more suggestions and an easy-to-use, interactive form, download a Home Inventory, complete it, and save a copy off premise, either in a safety deposit box or digitally in the cloud if you have server-based storage available (like Dropbox).

# RENTAL HOMES RANK HIGHEST

Single-family homes offer the investor an opportunity to borrow large loan-to-value loans at fixed interest rates for long terms. Lenders will loan 75-80% of the purchase price at 5.5% - 6.5% interest rate for thirty years. Compare that with other popular investment alternatives like precious metals, commodities, stocks, and mutual funds, and it will be hard to find financing available at all.

There may be some short-term, one-year loans at a floating rate tied to prime plus with no guarantee that they will be renewed. Some of those loans require you to have a 50% margin of equity, and if the value goes down, you'll have to put up additional cash or be forced to sell.

The advantage of having long-term mortgages is that an investor could find the optimal time to sell the property, instead of needing to sell it because the term is due and no other financing is available. Supply and demand cause the real estate market to fluctuate, and a long-term mortgage provides options to sell when the price is optimal.

Single-family homes enjoy distinct tax advantages. If the rental or investment property is held for more than 12 months, the gain is taxed at lower, long-term capital gains rates rather than ordinary income rates.

Another advantage of rental homes is that the improvements can be depreciated over a 27.5-year life. This is a non-cash deduction that reduces and shelters income. The accumulated depreciation taken over the life of the property is recaptured when the property is sold.

## RENTAL HOMES RANK HIGHEST CONTINUED...

Since rental homes provide income that other investments may not, tax would have to be recognized on the annual income. The IRS allows normal operating expenses like interest, property taxes, insurance, repairs and management to be deducted, including annual depreciation.

Rental and investment properties are eligible for tax-deferred exchanges, so homeowners can avoid paying tax at the time of disposition. Real estate also enjoys stepped-up basis, which means that when an heir inherits a property, instead of having a potential gain from the decedent's purchase value less depreciation taken, the heir's basis becomes the fair market value at time of death. All potential gain may be permanently avoided.

Appreciation is a much-anticipated benefit of real estate because value tends to go up over time.

Another big benefit is the control that an investor has with rentals that is not available with other investments like stocks, bonds, or commercial real estate. It takes a relatively small amount of cash to control the entire investment in a home, which wouldn't be available in other investments without partners or publicly traded companies.

Single-family rental homes are an investment that homeowners understand because they are essentially the same as the home they live in. They're used for rental purposes, but the maintenance, service providers and neighborhood are the same. Most homeowners understand rentals far better than alternative investments.

# TO DO LIST FOR BETTER HOME OWNERS

Checklists work because they contain the important tasks that need to be done. In addition to providing reminders about tasks that may have slipped our minds, they also inform us about tasks we didn't consider. Periodic attention to these areas can protect the investment in your home:

- ☐ Change HVAC filters regularly. Consider purchasing a supply of the correct sizes needed online, and they'll even remind you when it's time to order them again.
- ☐ Change batteries in smoke and carbon monoxide detectors annually.
- ☐ Create and regularly update a Home Inventory to keep track of personal belongings in case of burglary or casualty loss.
- ☐ Keep track of capital improvements made to your home throughout the year that increase your basis and lower gain, using a Homeowners Tax Guide.
- ☐ Order free credit reports from all three bureaus once a year at www.AnnualCreditReport.com.
- ☐ Challenge your property tax assessment when you receive that year's assessment if you feel that the value is too high. We can supply the comparable sales, and you can handle the rest.
- ☐ Establish a family emergency plan identifying the best escape routes and where family members should meet after leaving the home.
- ☐ If you have a mortgage, verify the unpaid balance and if additional principal payments were applied properly. Use an Equity Accelerator to estimate how long it will take to retire your mortgage.
- ☐ Keep trees pruned and shrubs trimmed away from the house to enhance visual appeal, increase security and prevent damage.
- ☐ Have heating and cooling professionally serviced annually.
- ☐ Check toilets periodically to see if they're leaking, and repair if necessary.
- ☐ Clean gutters twice a year to keep rainwater away from your home. This will protect the roof, siding and foundation.
- ☐ To identify indications of foundation issues, periodically check around perimeter of home for cracks in walls or concrete. Do doors and windows open properly?
- ☐ Peeling or chipping paint can lead to wood and interior damage. Small areas can be touched up, but multiple areas may indicate that the whole exterior needs painting.
- ☐ If there is a chimney and fires are burned in the fireplace, the chimney will need to be inspected and possibly cleaned.
- ☐ If the home has a sprinkler system, manually turn the sprinklers on, one station at a time, to determine if they are working and aimed properly. Evaluate if the timers are set properly. Look for pooling water that could indicate a leak underground.
- ☐ Have your home inspected for termites and other pests.

## TO DO LIST CONTINUED...

Instead of trying to remember when you need to do these different things, use your calendar to create a system. As an example, make a new appointment with "change the HVAC filters" in the subject line. Select the recurring event button and decide the pattern. For instance, set this one for monthly or every two months with no end date. You can schedule a time, or just an all-day event will show at the top of your calendar that day.

By scheduling as many of these items as you can, you won't forget that they need to be done. If you don't delete them from the calendar, you'll continue to be "nagged" until you finally do them.

# SERVICE PROVIDERS

One of the most frequent calls REALTORS® receive from past customers is to ask for a recommendation of a service provider.

Internet search engines have replaced the yellow pages or newspaper ads as a quick source to find a workman. While convenient, the problem with search engines is that the global nature of the web makes some companies look established when, in fact, they may not be at all.

A recommendation from a trusted friend or professional is by far your best resource. Reviews from strangers can be helpful, but an endorsement from someone you know and trust will make you feel more confident that you'll find the right person to help with your project.

Almost every home-sale transaction requires something be done to either prepare a home to increase marketability or make a repair discovered by inspections prior to closing. The frequency of transactions leads agents to build an extensive list of service providers that provide reliable work at reasonable prices and have reputations to back up their services.

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