

Carleton H. Sheets\*



# Real Profits®

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## NUTS&BOLTS

# Take advantage of a slowing RE market

*Purchase properties at lower prices to help ensure bigger profits in the long run*

**A** MAXIM IN REAL ESTATE investing is “buy low, sell high.” As the market cools, investors can now buy low more easily, says Jay Papasan, co-author of “The Millionaire Real Estate Investor.”

### Sellers are more flexible

During a slow market, sellers are typically more flexible with the sale prices and conditions.

If a property is new or under construction, sellers may entice buyers with upgrades, says Brett V. Long, senior vice president of commercial real estate at Fox Chase Bank in Hatboro, Pa. Additionally, the inventory will rise as competition decreases and fewer people bid on properties.

Ultimately, if a market has an overabundant supply, the property values will decline as sellers are forced to lower the asking prices for the properties.

### Strategies for slow times

If you buy in an ideal location, the demand to rent or purchase will always exist. Conversely, properties in fringe locations are the first to experience problems as the market slows.

In a slowing market, don't purchase a property with a short-term investment horizon and expect an annual appreciation of 20 percent or more, Long says, even though that has occurred in many markets in recent years.

### Selling when the market cools

An investor oftentimes sells one property and buys another. In this case, you can use a 1031 exchange to reduce the capital gains tax.

Although an investor may not receive the extraordinary profits and multiple offers of a hot market, he or she will make more money after reinvesting in another property that stands to rise in value when the market begins to heat up, Papasan says.

When selling a property during slow times, be flexible. Don't hold out for top dollar. Consider incentives such as upgrades, seller's assists, buy-down interest rates for buyers, or take-back financing, advises Long.

If you believe that a market may continue to soften, sell now and use that money later to purchase other properties.

A slowing real estate market can be a great opportunity for real estate investors who are willing to assist individuals who don't qualify for conventional financing.

### Win-win opportunities

An investor can still obtain the full asking price or more by offering owner financing that would fit a buyer's budget. Offer flexible terms or a rent-to-own lease option to get things rolling, suggests Tom Hudson, one of Carleton Sheets' million-dollar students.

Additionally, when fewer people qualify to purchase homes, investors benefit because the demand for apartments increases and rental rates rise.

### Better financing options

Most banks are proceeding with more caution than last year and may require additional equity or presales/leases, Long says. However, many banks also have more aggressive loan growth goals.

Because there are fewer suitable loans, if the deal is strong, multiple banks may aggressively pursue your business and lower the interest rate in exchange for less risk in the transaction. ☐

