

Straight Talk On Real Estate For The Clients and Friends Of Arrowpoint Realty Inc.

WHENEVER A MARKET MOVES, up or down, someone makes money.

When prices are high, those who own an asset view it as an opportunity to sell for profit.

When prices drop below actual value, those who have the resources to buy an asset view a market as one of opportunity

The key is to buy in a Valley, and sell at a peak..“Do I wait to buy, hoping the price will drop lower?” Do I wait to sell, hoping the price will go up even higher? Timing is everything.

Three years ago, as the real estate market was still climbing skyward, people were often saying, “I could have BOUGHT that \$300,000 house a couple of years ago for \$200,000!” Today, they are more likely saying “Two years ago I could have SOLD my house for \$300,00.

Of course real estate markets vary from one part of the country to the next. And an additional factor is the cost of capital. You either borrow money to buy something, or you divert cash from another investment. The interest you pay, or the loss of income from the other investment is the cost of your capital.

Our New Format

When we began this newsletter back in 1984, it was all done on a typewriter (remember typewriters?), cut and pasted, then printed out on a copy machine and mailed to our clients.

In the late 1980s, as we became computerized, the newsletter was created on an old IBM, printed in quantity and still mailed out to clients, typically with their owner disbursement checks.

By the mid to late 1990s, we became Internet savvy, and began E-mailing the newsletters to our clients.

Then, by 2004, the Arizona Association of REALTORS® provided as a member benefit the opportunity to use an Internet based newsletter service, and we took advantage of that service for the past several years.

Recently, our State Association has discontinued that benefit, leaving us with two choices: A – to subscribe directly with the service provider, or B – to take a step backward and create our own format.

Since I wrote the vast majority of the articles anyway, as opposed to using their “canned” articles, I decided, at least for now, to go back to our old system of simply creating the entire newsletter myself.

The Rental Market

As we are about to begin May, 2009, rentals (as we used to say back in my hometown of Youngstown, Ohio) are “petty but steady.” The market is flat, there is not a lot of activity, but units remain rented if rents are kept moderate and flat as well. Rentals did not drop like sales prices did.

Currently, there are 42,374 active FOR SALE listings on the Arizona Regional Multiple Listing Service, and 8,764 active FOR LEASE listings, of 51,138 total. That translates to 17% of the active listings being FOR LEASE, which is a bit higher than the more typical 15%.

Interest Rates

Although financing is much more difficult to get, as I write this article, interest rates are at an incredible low. A 15 year, fixed rate loan, with few or no points, has an interest rate of between 4 ½ and 5%. Couple this with incredibly low property prices, and you have the makings of an incredible investment opportunity for those with cash or credit.

Should I Sell My Investment Property?

Common sense would seem to say “no. Why sell in a depressed market? Ok, here are some additional thoughts. Rent rates for the most part haven’t changed a whole lot over the past several years. If you’ve owned your property for at least four or five years, and you didn’t over-leverage it when you bought it, you are probably not in bad shape regarding your monthly cash flow. If you bought it at or near the peak of the bubble in late 2005 or through 2006, you may be carrying a significant negative cash flow.

Here is what is important to consider: How bad is your negative cash flow each month? For illustration purposes, let’s say on average \$1000 – \$12,000 per year. When do you think the real estate market will turn around? Again, for purposes of this discussion, let’s say 2 years, or 24 months. Finally, in 24 months from now, 2 years away, when the market has turned around, do you think you would be able to get at least \$24,000 more for your property than you could get selling it today? That is the informed guess/decision you have to make. If the answer is yes, it is worth holding onto the property.

What Is A “Month-To-Month Lease?”

Also known as a “holdover” or “periodic” tenancy, a month-to-month lease results when the tenant remains in the property beyond the expiration date in the rental agreement, but continues to submit a regular on-time payment and the owner continues to accept that payment. In these circumstances, all the other terms and conditions of the original lease agreement continue to apply.

How Does A Month-To-Month Lease End?

According to The Arizona Landlord And Tenant Act, Article 33-1375, Paragraph B. reads: **“The landlord or the tenant may terminate a month-to-month tenancy by a written notice given to the other at least 30 days prior to the periodic rental date specified in the notice.”**

Translation: If the periodic rental period is monthly, then either party – Landlord or Tenant – may tell the other party on or before the date the rent is due that this upcoming payment will be the last one, and when this new rental period is over, the tenant will vacate the property.

Example: The lease is now “month-to-month,” and the rent is due on the first of the month. The tenant wants to leave at the end of June. Or the landlord wants the tenant to leave at the end of June. Either party would give a written notice to the other, anytime on or before June 1, that the tenancy will end June 30th.

Three important points: 1st, the notice has to be for a full rental period, so a tenant whose rent due date is the 1st **cannot** send a notice on the 10th of a month specifying that she or he will be leaving on the 10th of the following month, even though that would be 30 calendar days. The last rent payment must always be for a **full** rental period.

2nd, A month-to-month tenancy can also be altered with 30 days notice. So, if the landlord is willing to continue the tenancy on a month-to-month basis, but wants to raise the rent \$25 per month, effective June 1st, he or she would need to serve the tenant notice of said increase on or before May 1st – again, one full rental period.

3rd, although a landlord may permit a tenant to remain for one or two extra months, or more, the landlord still retains the right to cancel the tenancy, without explanation, with 30 days notice.

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