

Preconstruction & Second Home Investing



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Course Objectives

At the end of this course, the student will be able to:

- List several advantage of pre-construction investing for their client.
- Explain disadvantages of pre-construction investing that their client should be aware of.
- Describe the risks to their clients involved in pre-construction investing.
- Explain to their customer how to get started and what steps to take to invest.
- Explain the current climate and statistics regarding how many consumers use second homes as rental income.
- Describe different phases or categories of second homes to a potential client.
- List key elements involved in building a second home business.

Timeline

Introduction	5 min.
Pre-Construction investing	
Advantages	20 min.
Disadvantages	15 min.
Different from Residential investing	10 min.
Risks	15 min.
Red Flags	10 min.
Getting Started	15 min.
Second Home Investing	
Statistics from NAR	15 min.
Phases and categories	10 min.
Getting Started	30 min.
Conclusion	5 min.
Total	150 min. (3 hours CE)

1. Pre Construction Investing

Definition: During development or during planning stages homes or condos that have not been built yet

A. ADVANTAGES OF OWNING OR PURCHASING REAL ESTATE DURING THE PRE-CONSTRUCTION/DEVELOPMENT PHASE:

- Real estate, especially residential real estate, is a great investment and can provide excellent returns on income and provide continuous income year after year.
- Currently a high demand for housing across America and so there are multiple opportunities , lower initial prices means greater ROI *Holding period If required
- Ability to rent
- Analyzing appreciation
- Instant equity - Always try to get in on the very beginning in preconstruction not post construction because of the opportunity for instant equity weather renting or selling new versus renting or selling pre-owned or pre-rented.
- Developer incentives like upgrades on appliances, countertops, even furnishings
- Contract and escrow deposit means rights to the property *Appreciation potential is often huge because of market appreciation while being developed as well as post construction
- Market viability
- Baby boomers downsizing and retiring
- Millennials and single professionals or even married young professionals
- Contractual incentives
- Developer paid taxes (annual) or HOA/regime fees (annual) Developer paid closing cost for buyer safeguard against early sales and rentals
- No remodeling or repairs (no headaches and money out of pocket)
- Be early and select the best **location location location**



B. DISADVANTAGES

Failure to complete your due diligence will result in several problems. Some areas to include in your due diligence are:

- Growth and development in area you choose... City, region, neighborhood, and why and what is the attraction of each.
- -Solid research on the developer and contractors from insurance to performance
- -Job growth in the area is a must to sustain a rise in value over time
- -refusal of developers and or contractors to provide list of past investors and developments



C. How pre construction investing DIFFERS from RESIDENTIAL investing (apartment condos or single-family or campus properties)

- No remodeling or repairs
- A rising tide raises all boats
- Remember that pre-construction sales help the builder and or developer to secure a loan (often need 50% contracts for completed total projected final units)
- Opportunity to sell before completion or double closing

D. Risks

- Early buyers take on more risk but also stand to gain higher rewards and returns
- International pre-construction investments
- Safety and travel
- Understanding the culture and local laws for such things conveyance , rentals, investments, language and tax implications
- Reduce your risk by attending:
 - TRC designation for Realtors
 - CIPS Designation by NAR



E. RED FLAGS

- Construction company failures
- Developer failures
- Length of time developers and contractors been in business
- failure to consult Insurance agencies who specialize in performance and surety bonds.
- Asking for too much money down
- Money going directly to developer or construction company rather than attorney escrow accounts
- All International pre-construction investment needs wise counsel and much due diligence
- Scams, Lease back's, lack of possibly knowing real owner of the land, Real estate commissions, timeshare in disguise as investment with a cost that would be higher than a vacation if traveling there
- The importance of joining a large investment team with purchasing power and they are buying too.



F. GETTING STARTED

- Contact Good Real estate brokers in the areas where you are looking to invest
- Talk to the Chamber of Commerce
- Personal visit to the area
- Meet developer and possibly construction company owners
- Act quickly with your due diligence so you do not wait until 50% of the contracts are in and all of the best locations are selected remembering they will be the first to go under contract selection

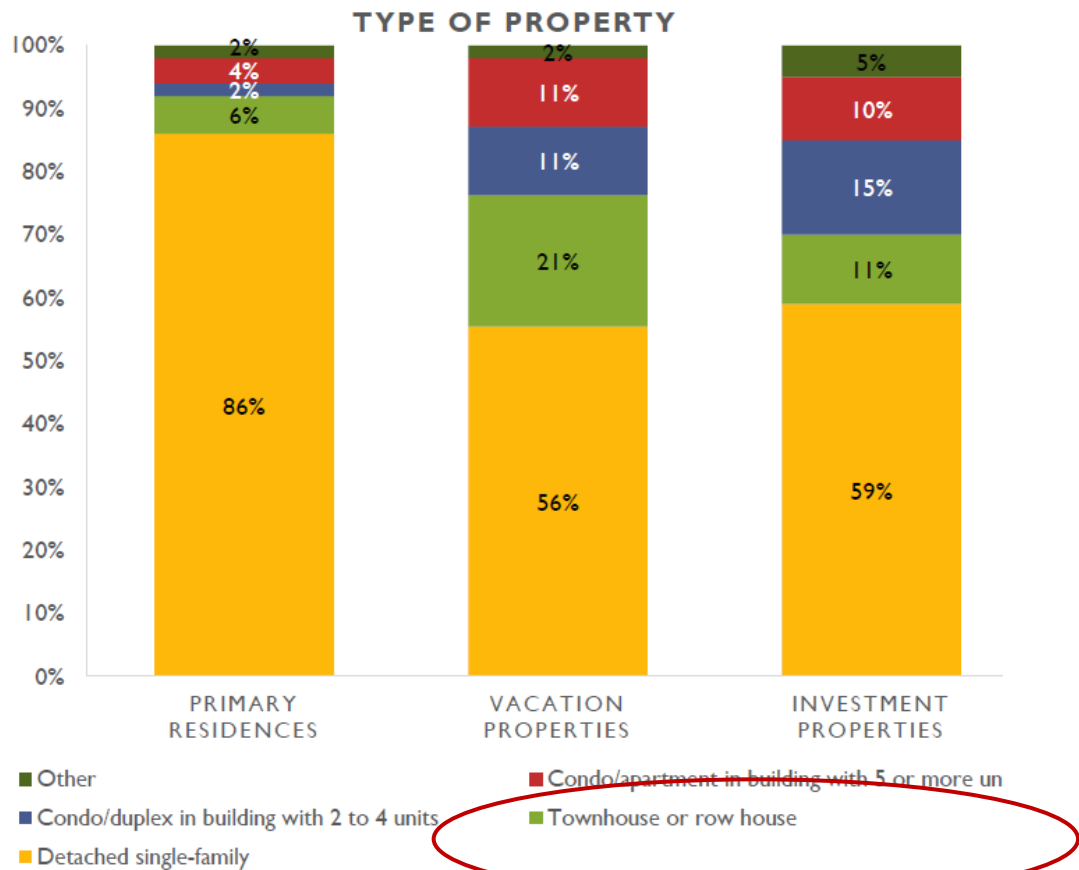


2. Second Home Investing

Vacation homes are recreational property purchased primarily for the **buyers** or their family's personal use, while investment homes are residential property purchase primarily to rent to others or to hold for other financial or investment purposes

The NAR 2017 investment and vacation home buyers survey was conducted in March 2017.

Property Characteristics



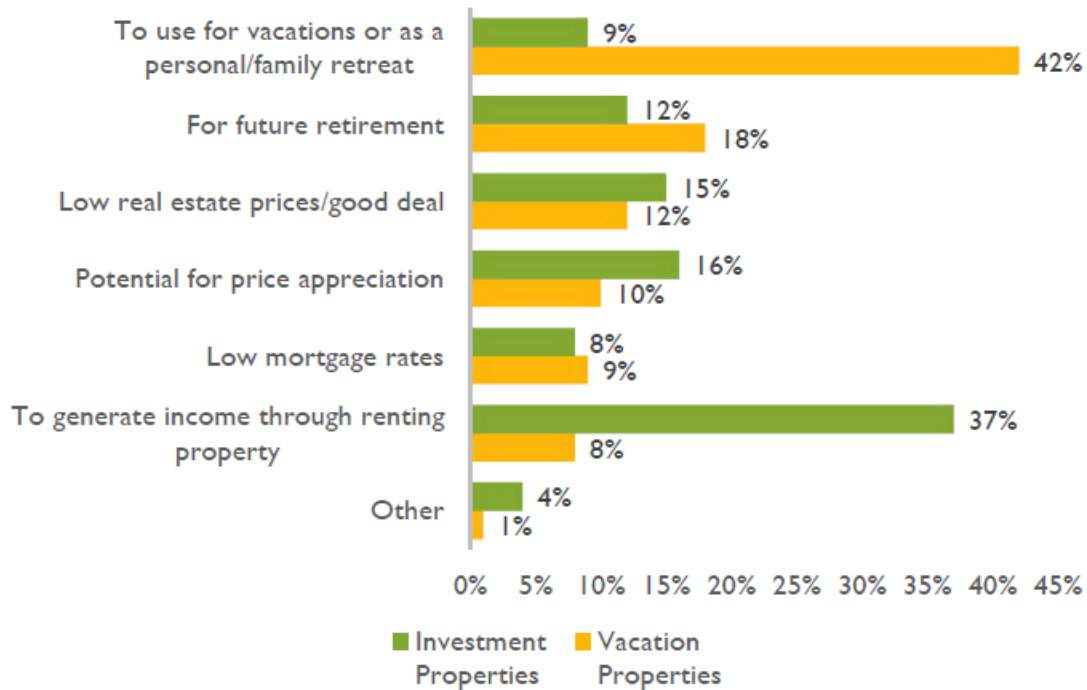
Size of Property

	Primary Residences	Vacation Properties	Investment Properties
500 square feet or less	2%	13%	5%
501 to 1,000 square feet	7	19	16
1,001 to 1,500 square feet	24	29	30
1,501 to 2,000 square feet	29	16	19
2,001 to 2,500 square feet	18	7	11
2,501 to 3,000 square feet	10	6	6
3,001 square feet or larger	11	11	14
Median (square feet)	1,900	1,460	1,500

2017 NAR Investment & Vacation Home Buyer's Survey

Motivation for Purchase

REASONS FOR PURCHASING HOME



Length of Time Buyer Plans to Own Property

	Primary Residences	Vacation Properties	Investment Properties
Have already sold this property	*	4%	2%
Less than 1 year	3	9	10
1 to 2 years	4	11	9
3 to 5 years	16	14	18
6 to 10 years	20	16	20
11 or more years	43	30	24
Don't know	14	18	18
Median (years)	11	9	9

* Less than 1 percent

2017 NAR Investment & Vacation Home Buyer's Survey

A. Statistics from 2016 of vacation buyers and second home investors

- Vacation buyers typically earned about \$90,000 household income while Investment buyers have a household income of 82,000.
- Both are most likely to purchase a single-family home in the south with vacation bars preferring a beach location and investors choosing a suburban area

The top two reasons for buying a vacation home:

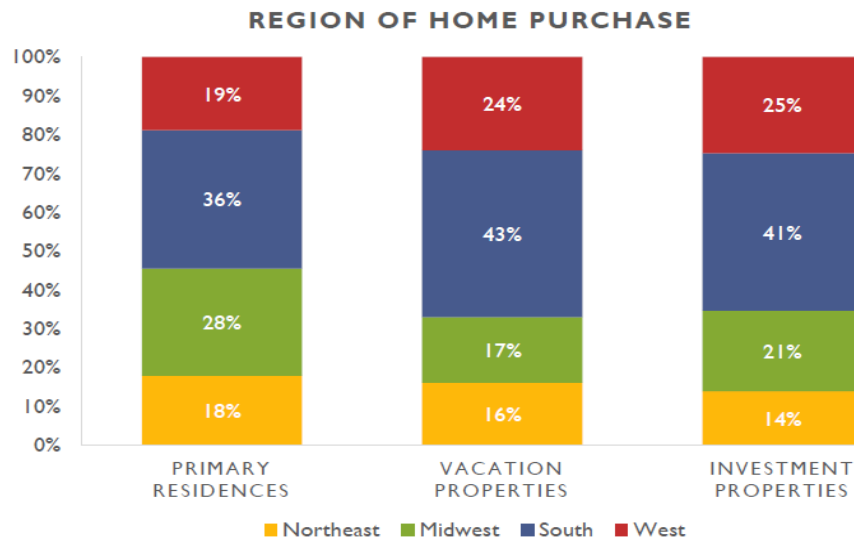
1. To use for vacation or as a family retreat 42% in for future retirement 18% while investors mostly rent
2. To generate income through renting 42% in for potential price appreciation 16%

In 2016 the NAR's survey showed a sizable drop in 2016 in activity from vacation buyers and a jump from individual investors. This is all according to the Annual Second Home Survey released in April 2017 by the NAR.

Vacation buyers and Investment buyers in 2016 were more likely to take out a mortgage and use their property as a short-term rental.

Vacation home purchases last year in 2016 showed a 21.6% drop, dropping for the second consecutive year and falling 36% from their recent peak high in 2014. The two most popular destinations for vacation buyers are in the South and in the West.

Location of Properties



2017 NAR Investment & Vacation Home Buyer's Survey

Home prices have gone up as tight inventory conditions push the median sales price of both vacation and investment homes. Last year, the median vacation home price was \$200,000 - up 4.2% from \$192,000 in 2015.

“Sales to individual investors reached their highest level since 2012 as investors took advantage of record low mortgage rates and recognize the sizable demand for renting in their market is renter struggle to become homeowners” said Lawrence Yun recently.

Vacation sales accounted for 12% of all transactions in 2016, which was the lowest share since 2012 at 11% and down from 16% in 2015. The portion of investment sales remained unchanged for the third consecutive year at 19%, and owner-occupied purchases increased to 70% up from 65% in 2015.

Given the rising popularity of short-term rentals throughout the country, it is no surprise there were slightly more investment and vacation buyers renting their property for less than 30 days. 44% of investors and 29% of vacation buyers did or tried to rent their property last year and plan to do so in 2017. 21% of investment buyers and 15% of vacation buyers did not rent their home for short-term purposes last year but plan to try it in 2017.

B. Different phases or categories of second homes:

- Vacation
- Investment
- Luxury 2nd Homes
- Retirement Homes

Understanding these different end users and categories is important

I have owned and flipped 11 second homes and only own the 11th one now, probably one which I would like to keep, so it becoming a retirement property or family retreat, although I will still rent in high season.

C. Getting Started:

A. Building your Second Home Business

1. use and develop YOUR:

- a. core real estate skills
- b. business skills
- c. interpersonal and social skills
- d. risk management skills
- e. marketing skills



2. Create your market niche

- a. property management/rentals
- b. sales of Luxury/Second/Vacation residential-

-Recreation market

- i. resorts-golf, beaches, hunting, fishing,
- ii. near the kids
- iii. unexpected places

-Luxury market

- i. understanding affluent buyers
- ii. becoming Luxury agent/broker -ILHM
- iii. RSPS course and certification by NAR

-Second Homes as Investments

- i. Analysis of Investment Value by CPA
- ii. ROI and cap rate
- iii. RPR for Investors (Realtors Property Resource)
- iv. Tax consequences (CPA), 14-day rental rule, mortgage interest deductability, capital gains, depreciation,

active/passive/material participation, converting 2nd home to primary residence, Tax-Deferred 1031 Real Property Exchanges

v. RSPS certification..benefits

c. Flipping as a Realtor or buyer/invest, enjoy, rent, flip (my motto: "Buy when you don't have to buy, AND sell when you don't have to sell!")

3. Network Building

a. Build your network and personal brand

b. Building your referral network

c. How will you stay in touch with this entire niche?

Conclusion/questions:
