

The Three-to-Five-Year Holding Plan

A military strategy

By Dan Auito

With this report, I hope to spare our military members from the agonizing decision of whether to put their lives on hold for one more tour or to go ahead and take the plunge into homeownership. As a result of speaking to countless military members whom I find kicking themselves while grimacing at the realization of blown opportunities, I would like to offer those brave souls an alternative method to getting hold of the American dream. For the civilian population who will only be staying in one certain location for the short term of three to five years, then this method will work for you as well.

The issue at hand is whether buying real estate and having to sell it within three to five years would in fact be enough time to recoup and actually make a profit, while at the same time ensuring that when they did sell they would be relatively comfortable in knowing that they indeed would make a fair profit for taking the supposed risk.

For the above reasons I would like to slant this segment towards the military, as it really can help nail down some important concepts for our 3.2 million military members and their families. This strategy can certainly be used by everyone, however, our military members can really maximize this strategy as they often are moved an average of five times throughout a twenty-year career.

Let's kick off our story's scenarios, insights and strategies by saying the sooner you begin to buy real estate, the better your odds will be of accumulating more assets, equity, tax advantages and wealth. Granted most readers of this report will be civilian but don't count yourself out, as the national average says that most people tend to move every five years. Yes, that's an average, so between grandparents who have lived in the same home for fifty years and the young and mobile moving annually, we actually find that 20% of the general population will be on the move each year.

The above fact alone can be a comfort in itself as it says that a fair percentage of people will constantly be in the market to either buy or sell real estate. July 4th weekend is traditionally the hottest home sales period of the year, so with that in mind you'll want to really turn on the sales program to get those bidding wars started. The national averages tend to fluctuate, however, a fair figure to use regarding occupancy per household can be, for our purposes, 2.5 persons per household. I know you're asking how you can have half a person living in a home. Remember, it is the result of averaging, i.e. two in one, three in another, resulting in 2.5.

Using a city of 1,000,000 people divided by 2.5 people per household would equal 400,000 housing units. Dividing that by 5 gives us the 20% average of homes that will be experiencing new occupants due to people moving; 20% of 400,000 equals 80,000 units available. Now we can further adjust our estimates using census data that says 28 % of

the population lives in rented housing which leaves us with the pseudo-figure of 72% or 57,600 homes that will most likely be bought and sold in that year.

Using all the weird science above we can simplify this and say that for every one hundred dwellings existing, 400,000 divided by 57,600 equals 6.94 houses per hundred that will be put on the market annually for sale. You could also divide that 57,600 into 365 days of the year and say that on average 158 homes are being bought or sold per day in that city. Remember, though, that spring and summer are the hot-selling months and the majority of homes will sell within the five best selling months: May, June, July, August and September. What does all this information tell us? I believe it justifies our reasons to buy, as you can well see that a market does exist on a continual basis and when we have a clear idea on how to operate in that environment, we can capitalize on it by having a plan!

So what's the plan? I have executed the following plan many times and have also encouraged and facilitated many more for individuals who were at first confused, hesitant, and to varying degrees, uninformed. Here is one plan that I know works, so we won't be guessing on this one! The first thing that you need to do is make up your mind that upon arrival to your new location, you will not rent or accept subsidized housing. Once you have made up your mind that buying is the way to go, then determine what type of real estate will satisfy your family's needs. The standard and most sought after housing product is the traditional 3 bedrooms, 2 baths, and 2-car garage home. If you can afford it, then you should, at the very least, consider it; the main reason being is it will sell faster when you decide that it is time to sell!

Beware! You may have competition in finding these hot properties but don't get discouraged. Keep hunting until it turns up because you will build in a measure of safety by having that same in-demand property when it comes time to sell. Another key element is to visit or contact a local lender in the community in which you will be buying, in order to get pre-qualified for a certain loan amount *before* you go house hunting. This is virtually a free service that lenders perform in order to determine how much house you can afford. By getting pre-qualified, the sellers will take you seriously as they know you can afford the property and are ready to move fast.

In the armed forces, the service member is often offered base housing instead of a pay increase in the form of B.A.H. (basic allowance for housing) that would otherwise be used to sustain housing off base. Pay scales are uniform throughout the services, however housing allowances vary according to local costs associated with housing. On average, an E-5 petty officer or sergeant will receive around \$1,000 extra a month if they choose to buy instead of going into base housing. That \$1,000 a month often qualifies people to be able to afford a house in the range of \$150,000.

The same goes for civilians. Why throw that money away on rent or lost entitlements when you could be using it to create equity, tax advantages and appreciation? On top of that, service members automatically qualify for a Veterans Administration Loan (VA)

guarantee, which means they can buy with virtually no money down! Civilians can get 3%-5 % down loans in many cases.

By making up your mind to buy upon arrival to a new location, you maximize the time you have to look for, buy, remodel and sell the home in the dreaded three-to-five-year time period. If you buy under market price and methodically rehabilitate the home while you live there, history tells us that an adequate profit is often the result when you sell it. Paint, carpet, tile, landscaping, fences, sheds, shelving, wallpaper, new faucets, cabinets and vanities can indeed make your home worth considerably more than you paid for it.

Don't forget that an average inflation rate of 3% compounded over three years will add \$13,909.05 to your home's value alone, making it worth \$163,909 if you did no improvements and just maintained it in good order. Let's also remember that you may have bought a 3 bedroom, 2 bath, 2 car garage home under market value and your mortgage has been paid down a little, while at the same time you have been methodically improving the property with the intent to sell it for top dollar at the peak of the feeding frenzy in early July. Come on gang, this ought to be illegal - with me telling you how it's done, you're going to have a huge advantage over the folks that don't have this strategy!

Remember to buy in good neighborhoods to protect your values. You also want to buy homes with sound, plumbing, electrical, heating, solid foundations, structural integrity and a solid roof in desirable locations, at below market rates. This puts you in a cosmetic "rehab", not the classic money pit. You want real estate that needs cosmetics, not expensive hidden defects that call for a repairman. Go to www.inspectamerica for free inspection sheets.

The icing on the cake is to sell the home "by owner" when it's time for you to sell.. Here are a few quick basics on how to do it successfully on your own. First, since you have all this great information that I'm giving you, you will be well positioned to do this. If you get confused, pay a trusted real estate professional for just the specific service that you need, and not on a percentage fee but using a flat fee. The industry is headed in that direction already.

Here's the brief: You bought the house as soon as you could in the best area at the best price, with minimal major repairs needed. Over a three-to-five-year period, you methodically rehabilitated it with paint, carpet/floor coverings, landscaping, fencing, vanities, faucets, etc. You know that you are doing these repairs and improvements with the intent to sell, so you have used neutral colors and earth tones that generally everyone likes. Now your home should show very well when people come to see it, so your preparation is almost done. By organizing the details of your sale up to six months in advance, you can now wait for your higher sales price. You won't be in a rush and you won't have to discount your price in order to move on to your next destination.

Here are two very simple rules in selling any home:

1. Price it right; get your own appraisal before you advertise it for sale.

2. Advertise it properly, widely and often, via newspapers, internet, bulletin boards, word of mouth, yard signs, corner signs, open houses, brochures, fact sheets, flyers, etc.

Now keep the house sparkling clean and box up all clutter and stack the boxes neatly down the center of the garage. Clear out closets, remove framed photos from the walls and get rid of old furniture in a moving sale, which you should organize a couple of months before you move. Note: Let moving sale attendees know your home will be for sale soon!

Not everyone will attempt to sell “by owner”; the percentages are small, so my fellow real estate agents really have no reason to be upset here. If you will use a real estate attorney to handle your sales contracts and related disclosure documents, you can usually have the whole thing done for about \$750.00. On a sale like the one we have been talking about here, you may also offer the same deal to a real estate agent to see if they would be willing to match the attorney’s price. By using an attorney, a title company, staying in contact with lenders, and getting your own home inspection and appraisal beforehand, you will find that your sale will go smoother than you might have thought possible. A \$10,000 dollar commission can be saved if you’re willing to do the work by preparing in these proficient ways.

At this point you need to have a little faith; you’re smarter than the majority of homeowners. After all, you have had a plan since you bought the home. Believe me when I say that you will do an excellent job in selling this home and when you do, you will pay no capital gains on your profit unless you have already exceeded your individual lifetime capital gains deduction of \$250,000, or \$500,000 for married couples.

I must confess I feel as though I’ve been conservative on the profit potential, as I have consistently averaged an approximate \$30,000 profit on most deals. If you repeat this process over twenty years and you move five times, \$30,000 multiplied by five moves equals \$150,000. When you sell that last house you can take the money with you and retire back home, and buy a \$150,000 retirement home free and clear, thereby in the end, having Uncle Sam buy you a house instead of renting one for you! One final note: Due to a moderate 3% inflation rate compounding over those 20 years the same \$150,000 dollar home today will cost \$278,807.35 20 yrs from now, that’s another reason to start buying today, as real estate is considered an inflation hedge

For the people who chose to rent or live in base housing for those twenty years, it is an unfortunate loss of opportunity, as they don’t get the equivalent of a free house. *You will* if you begin to take steps now towards buying your home’s using better methods, plans and strategies to achieve your long-term goals. DON’T WAIT!

The concept works *if* you work it!

Dan Auito is a dual-licensed real estate agent and appraisal assistant. In addition to being a 20-year veteran of the United States Coast Guard, Dan has also founded a non-profit drug prevention corporation, a real estate consulting group and is the author of "Magic Bullets in Real Estate." This 300-page power-packed book (due out in early July 2004) comes with a website (on line in July 2004) that further supports its readers. Please visit with the family at www.magicbullets.com we look forward to seeing you!