

# Al Gage Report

February 2013

Issue 68

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**4 Sets of Free Passes This  
month by random drawing.**

## Free Movie Night

**Count-1421**

From 1999 to 2007 we hosted a free movie night for all of the homeowners in Rancho Santa Fe, Corte Sierra, Sage Creek, and Crystal Gardens, Las Palmeras and Wigwam Creek as well as our past clients. We would love to offer this little payback to our community again but with the price of mail going up and the cost of printing, the only way we can do that is with your help to promote the E-newsletter to the same level of readership as the mailings touched in the past.

## Real Estate as an Investment?

**Is it a good place to invest my  
money or retirement?**

Many times people do not realize that purchasing or selling a home is, for all intents and purposes, the largest investment in most peoples' lives. Now just about everyone, including me, has been bitten by their investments between 2007 and 2010. We have debunked the myth that real estate investments can only go up, as a result people are a little more cautious in their investing. That does not mean that real estate is not a good long term investment at this time (even a home bought in the early 2000's would still show a small return on investment). With safe investments such as Certificates of Deposit paying somewhere well below 2% return and 401k's and IRA's primarily invested in the stock market just now reaching the level they were in 2007-08, maybe real estate is a viable alternative.

I am seeing more and more clients liquidate their retirement accounts and put them in self directed IRA's. While this is one method of investing, it has its drawbacks, so I prefer just a straight real estate investment. Some of the drawbacks on self directed IRA's are that you lose the depreciation tax deduction and it is not very liquid.

Lets do the math on a straight foreword real estate investment. Lets say that you purchase a home now for \$150,000 and put 20% down giving you a total out of pocket investment of approximately \$31,500 and a mortgage amount of \$120,000. At todays super low rates, your mortgage payment would be \$694, principal and interest plus \$106 for taxes, \$50 for insurance and \$50 for HOA dues for a total

payment of \$900 per month. That home will likely rent for approximately \$1050 to \$1150 per month giving you a net operating profit of \$150 to \$250 per month. If we put away \$100 of that for maintenance it leaves us with an average profit of approximately \$100 per month or \$1200 per year.

If we divide \$1200 net profit by \$150,000 total investment, our return on investment is a dismal 0.8%. Not very appealing, but it really is not the entire picture. That net profit really should be applied only to the \$31,500 that you actually invested assuming that the maintenance will over time cover all major expenses. That return yields a much better 3.8% (which is better than most people have done on a lot of investments over the past 7 years). However that is still not enough incentive for most people to run out and buy a home as an investment because there is some work involved in owning an investment property.

So let's throw in the rest of the story. Now we will assume that the home appreciates at 5% per year (which is still the long term average in spite of the recent spikes and lows. Although our current 10 year average including the spike and crash is 8%) over 30 years. This would result in a sales price of \$375,000 at that time (I know that seems like a lot but remember an average home used to cost \$15,000). That results in a total return of \$340,000 (remember your tenant has now paid the home off for you) on a \$31,500 investment or a total return of 1079% over the 30 years or a net return per year of 36%.

Now this investment can either be taken as retirement in the form of on-going rent or in a lump sum and it would be taxable. Keep in mind that the rental amount are very likely to keep

So here is the deal, if we can get our readership up to around 3500 per month from our current level of just over 1000, the savings in mailing and preparation cost will allow us to once again rent the entire movie theatre for our neighbors and clients. To accomplish this we will need each of you to forward the email or website to friends and have them opt in for market updates and eventually the free movie passes. We will keep a running count of the opt ins and when we reach 3,500 emails currently living in the Phoenix, Avondale, Goodyear, Litchfield Park and Buckeye areas, we will fire movie night back up



## Real Estate as an investment continued

pace with inflation and other costs of living, so they will provide a fairly nice retirement on a little over a \$30,000 investment.

Another benefit to owning the rental home is the fact that you can depreciate the home and have current tax savings to help you offset the relatively meager cash flow in the beginning. Keep in mind that when you depreciate an asset, you will have to recapture that depreciation as income when you sell the property. In our ongoing example, the depreciation would be the purchase price of the home (\$150,000) minus the land value (lets say \$25,000) because the land does not depreciate, divided by 27.5 years. This results in an annual depreciation amount of \$4545. If you are in a 25% tax bracket, that will save you an additional \$1136 per year in net taxes.

I am not saying that being a landlord is for everybody because it is not. We have all heard the stories of the landlords who walked into a house and it was stripped. If you are a person that cannot bring yourself to evict someone from a home, then this may not be the business for you to get in either. I am also not guaranteeing that home prices will continue to rise in the short or long term and I am not saying that any of this should be attempted without speaking to an accountant or professional financial advisor, because these scenarios also depend on your individual tax situation. I am urging people to think outside the box when it comes to a retirement plan (and if you are less than 35, this plan works especially well). We can't steal homes for you. In most cases it is not a requirement that you buy your investment home significantly below market value, the math still works. We will promise your that we will work hard for you and get you the best deal we can at the time you purchase a home.

**We need your home to sell!!!**

**Our goal is:**

**To get the most money for your home, in the shortest amount of time with the fewest amount of problems.**

### Free Movie Passes Given Away

We assigned everyone that has signed up for the electronic newsletter a random number and then selected these random numbers until we select the number of people corresponding with the number of passes we are giving away this month. We have sent emails to the lucky winners and mailed their passes to them with the exception of one lucky winner who did not give us their address. As our readership increases we will give more and more passes away until we can start FREE MOVIE NIGHT again.

**Want a current and local Market Update go to:**

[www.algage.com/February2013MarketUpdates.html](http://www.algage.com/February2013MarketUpdates.html)

**Over 1,000 homes sold in Avondale!**



With over 1,000 homes sold just in the Avondale area since 1997, we are positioned to have several advantages over other real estate agents. We did not sell 1,000 homes by getting some big bank contract or HUD contract, we sold them one customer at time. This leaves us with a large data-base of customer exclusively in the Avondale, Goodyear, Litchfield Park area to better sell your

existing home at the highest possible price. We are experienced in short sales and regular sales and have a vested interest in keeping and maintaining the values in our neighborhood.

Especially important in this market is the fact that we are experienced in the area to effectively challenge any low appraisals we may receive.



**Driggs Title Agency**

## Featured Homes of the Month

Sold



Sold in 4 days

1) 12955 W. Catalina Dr. an 1860 model in Las Palmeras in need of some repairs. Sold by Al Gage for \$130,000

2) 2404 N. 123rd Dr. -An Azure model in Rancho Santa Fe- Beautiful Property Sold by Al Gage-Sales Price-\$202,500

Sold



3) 12638 W. Amelia a 1428 model with a pool in Corte Sierra- Sold by Al Gage for \$125,000

New Listing!



4) 12909 W. Monte Vista Dr. A Carmel model with a pool in Rancho Santa Fe- List Price \$150,000

Sold in 4 days

3625 N. 127th Dr. An 1844 model with a 3 car garage in Sage Creek. Sold by Al Gage in 4 days for \$155,000

New Listing!



6) 11442 W. Roanoke Dr. A 2131 model in Crystal Point. Listed by Al Gage for \$160,000

### Other Notable Sales of Non Short Sale-Non REO Properties in Avondale

- 12841 W. Windsor Ave. A Vail model in Rancho Santa Fe. Sold for \$127,000
- 12762 W. Alvarado Rd. A Prescott model with a pool in Rancho Santa Fe. Sold for \$145,000
- 11018 W. Alvarado Rd. A 2769 model with a pool and spa in Crystal Gardens. Sold for \$243,300
- 12740 W. Cambridge Ave. An Azure model with a pool in Rancho Santa Fe, SOLD \$221,000



# Al Gage Report

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*Al Gage, P.C*



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**IMPORTANT NOTICE: WELCOME HOME REALTY AND AL GAGE P.C. IS NOT ASSOCIATED WITH THE GOVERNMENT AND OUR COMPLIMENTARY SHORT-SALE NEGOTIATION, IF NEEDED, IS NOT APPROVED BY THE GOVERNMENT OR YOUR LENDER. EVEN IF YOU ACCEPT THIS OFFER AND USE OUR COMPLIMENTARY SERVICE, YOUR LENDER MAY NOT AGREE TO CHANGE YOUR LOAN. IF YOU STOP MAKING PAYMENTS ON YOUR MORTGAGE, YOU COULD LOSE YOUR HOME AND**

## Short Sales Down to 29% of the Market

That being said, we are still hard at work helping homeowners who remain significantly upside down on their property. Many people have continued to hold out and hope that the market would rebound to the point where they would be able to sell their home and break even. For many of you, it may eventually happen but it may be 10 years down the road. For those of you with significant hardships due to medical problems or job loss, a short sale may be the best answer and is almost always preferable to foreclosure.

In addition, the Mortgage Debt Relief Act has been extended until the end of 2013. Although another extension is possible, I would bet against it. This Act allows homeowners who have short sold or foreclosed on their PRIMARY residence to avoid paying taxes on the debt forgiven. If a person has held on to another home and converted it to a rental, this may still qualify as a primary residence if they have lived in the home 2 of the past 5 years.

Although the banks have somewhat backed off of the relocation assistance and HAFA type programs or at the very least, lack urgency to get these short sales done, we are still consistently able to assist homeowners. We cannot do principal reductions or offer \$20,000 in relocation assistance (which occurred at the height of the short sale market) we can help you short sale your home and avoid foreclosure as well as any potential ongoing liability if any. Please call or email us today for a **Free, Confidential, and Expert evaluation** of your current situation. Some of you may be surprised that you do not have to short sale at all or only have a short wait until you can do a regular sale.

For a regular sale at the highest price, a effective short sale, new home representation or an investment home, Please give the **AL GAGE** team a call or email. (623)-536-8200 [al@algage.com](mailto:al@algage.com)