

BUYING A HOME



- active since 2003 -

» FIND WHAT YOU'RE LOOKING FOR

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ABOUT BLAKE AND DIANA

Blake and Diana Roberts are critical thinkers who apply creative and high-energy initiatives to the real estate sales process.

Whether you're a first time seller or buyer, or a seasoned investor, Blake and Diana Roberts have the knowledge and skills needed to address your real estate wants and needs.

In today's new economy, your choice of real estate agent is critical to the ultimate success of your transaction—Blake and Diana Roberts are the key to a stress free, professional and profitable transaction.

Our advantage

- 100% professional, tireless and committed
- Multi-million dollar top producing agents
- 20 plus years in sales and marketing for top technology and entertainment companies
- Realtors, licensed brokers in California
Diana's DRE broker number: 01405276
Blake's DRE broker number: 01455276
- Native Hungarian speaker
- In-house appraisals

Our value proposition

- Assistance in Selling, Buying and Investing
- FREE weekly blog articles
- FREE market analysis and property profiles
- 1031 exchange information
- FREE home seller and buyer guide
- FREE MLS access via our website
- Home loan and refinance options
- A list of preferred vendors – handymen, stagers, etc
- High-tech marketing skills: web, social, blogs, online videos
- On average, 2,000 people per week visit our site, www.piertopierbrokers.com
- We're the bose(s). So the buck stops with us.



- » real estate services
- » appraisal services
- » new construction
- » luxury homes

- » investment properties
- » developer partnerships
- » beach cities specialists
- » client concierge services

WHO'S YOUR AGENT?

Your agent sent you to see an open house and you love it. The listing agent wants to cut you a “deal,” should you do it?

On paper, one might think that working directly with a listing agent helps streamline a deal, and that the seller has less commission to pay.

However, at the highest level, it is generally not in your best interest to work directly with a listing agent, here's why:

The listing agent has signed a contract with the seller to find a buyer and bring the highest possible price, which is the listing agent's fiduciary responsibility. Depending on how the agent has written his listing agreement, he may have extra commission that can be credited to you as a discount, but it may not be equal to an amount you would have saved using the negotiation efforts of a seasoned agent.

When you write an offer with an agent, one who is not affiliated with the listing, the agent has an ethical and fiduciary responsibility to you, the buyer, to get you the best possible deal. In this scenario, the agent is looking out for your best interest, you're not in the number two position.

Many brokerages discourage their agents from representing both sides of a transaction, which mitigates the potential for future legal issues.

There ARE circumstances that warrant that you work with the listing agent directly:

- You fully understand the pros and cons of working directly with the listing agent
- You don't have an agent and you feel comfortable with the listing agent
- The deal is not on the MLS and there's only one agent involved

Some communities want to work with you directly and don't support buyer's agents. We usually see this setup in large, planned communities (Valencia, Riverside, 55 plus projects).

CLIENT | AGENT PLEDGE

Here in the South Bay there are at least 5,000 agents vying for your business. Add to this list of agents, your sister's, uncle's brother who has a real estate license, your boss' 18 year old daughter, your mother-in-law's best friend in Brentwood, and oops, that active broker license you hold—just in case.

When you meet a South Bay agent and you're engaged to provide your digits, please consider that the agent will kick into high gear trying to help you find what you're looking for. If you hate saying no to people, and there are many of you out there, you might sign the guest book of 10 agents on any given weekend. Yes, agents use open houses to meet and greet future clients.

If you have an agent, a relative, or someone who is going to write your offer once you find a house that you like or, list your home for sale, please tell the agent asking for your contact info that your needs are already taken care of.

If you're not totally honest with the agents you meet, you'll find that your mail basket will be loaded with similar MLS auto-generated correspondence.

There's a nice couple we run into every few months or so. The wife is a straight-shooter and told us the first time we met that they were repre-

sented by a well-known local agent. Boom! This is all we're asking — you tell an agent that you've already got representation and it's their ethical duty to back-off.

Pick one agent - make the pledge

All you have to do is pick one agent, pledge to work with them through the fruition of your deal. When you are asking ten different agents for their opinions, you're going to get ten different approaches and ten different opinions.

As a client, please make a pledge to work with only one agent. If the agent you've picked doesn't work out, no worries, find a new agent. But, work with only one agent at a time.

The Pier to Pier Brokers reciprocal pledge

We spend the time, energy and money necessary to meet our clients real estate needs. In exchange, we ask that our active clients will be loyal to us too. All Los Angeles area agents have access to the same MLS data—It's how we use the data that makes a difference.

THE FIVE D's

What motivates home buyers and sellers, the five D's

One of the most exciting aspects behind the business of real estate is never knowing what the next day will bring. The five “D’s” and how they influence one’s needs are very individual. But, to some degree, the five “D’s” are with each of us every day of our lives. Internal and external events are constantly changing our view of real estate. More importantly, accelerating and decelerating our needs on a virtual minute-by-minute life clock.

The five D's are:

Death: Death is a huge real estate motivator. Whether it’s downsizing after the passing of a spouse, or the kids selling off their dearly departed family member’s land holdings, death is the fastest path from not for sale to sold. Death also ties into Desire and Dissatisfaction because it often causes cash to pass hands throughout the family tree. A sudden infusion of cash is the number one reason potential home buyers put their desire into action.

Divorce: We live in a modern, complicated world. Even our best intentions aren’t enough to keep a family together. Once the divorce is eminent, especially if the situation is acrimoni-

ous, the once happy home becomes a common asset that must be sold.

Desire: Well, we all have desire. Maybe there’s a particular home you’ve always wanted and now it’s finally on the market, maybe you’ve been hoping to move to an area with better schools for the kids, or simply desire a complete change of venue. Desire is about your dreams and what you want.

Dissatisfaction: So you bought your dream home when you were 25 and now your uber southwest teepee no longer works for you. Or, the new mall adds way too much traffic for your taste. Or maybe a paparazzi hounded celebrity just bought next door and you—there are so many reasons a family can become dissatisfied with their current home.

Default: For whatever the reasons, the homeowner is unable to financially keep their home, which is when interested buyers and investors have an opportunity to purchase the property below market prices. Depending on the neighborhood, foreclosed homes represent an amazing investment opportunity.

MARKET(ING) CHANGES

Real estate marketing is quickly evolving to include a heavily waited online component.

There was a time, as recently as 24 months ago, that the venerable real estate “For Sale” sign was still considered a top marketing tool, driving nearly 20% of our monthly telephone traffic. Today, the For Sale sign still does a great job of screaming, *hey you, this home is for sale*, but people no longer call the listing agent for impulse data gathering. In the last 24 months, I can count on two hands the number of inbound calls my signage has generated. And, of these calls, 90% are from people looking for a rental.

It’s also interesting to note that our website, blakeanddiana.com, has doubled its daily visitor count during this same period, and is now generating over 60% of our inbound telephone calls, texts and email.

There are many factors influencing how and when home buyers decide to reach out to an agent. Rather than call an agent day one, many home buyers will dig into their favorite real estate site rather than risk being sold to by a pushy agent. Price, square footage and historical data is just a mouse click away.

Get the point...

As consumers evolve how they respond to traditional marketing initiatives, expectations for time tested tools like the for sale sign and even print advertising, must change too. The web is about self-service and disintermediation, which means the modern real estate marketer needs to point everything they do to their online presence.

Regarding print advertising, it’s still the best way to establish and maintain a local presence and brand, but advertising is expensive and nearly impossible to measure for effectiveness. More than 75% of the agents I know have cut way back on their print advertising budget, some have stopped altogether.

How about you, when was the last time you really read the local real estate section of your newspaper? Or, called an agent from their for sale sign? I’d bet dollars to donuts it’s been a while.

SALESPERSON VS. BROKER

Real Estate Salesperson vs. Real Estate Broker – What's the difference?

Q: Blake, I know you're a Realtor, licensed broker, what does this mean to me as a client?

A: In real estate, the broker has the ultimate authority and responsibility for each transaction, and for the actions of their sales force. If an agent misrepresents information, fabricates, or creates a situation that draws the attention of the Department of Real Estate, both the broker and the salesperson are at risk of disciplinary action or, even the possibility of losing their licenses.

The advantage to a client of working with a Broker vs. a licensed salesperson is education. Brokers have more areas of industry knowledge and have demonstrated their expertise through continuing educational requirements and difficult State of California testing.

As a client, you are assured that a licensed broker (or broker associate) is extremely knowledgeable, understands the legal aspects of the business, and has earned the designation of a Broker. I liken the salesperson vs. broker distinction as being similar to paralegal vs. lawyer. A paralegal may have great experience and knowledge, but can't practice law—the lawyer of record is responsible

for the file/case.

In addition, having my broker license allows me the flexibility to evolve my business in any direction that Diana and I choose. And yes, Diana is a licensed broker and also licensed appraiser.

I'm told that some States don't make a distinction between salesperson and broker—there's one license and one test. This is probably a better model because it holds all agents to the same standard of knowledge and education.

TEAMS, GROUPS & ASSOCIATES

Whether it's PR, Marketing, Legal or Real Estate, when you see the words Associates, Group or Team preceding an individual's name, they have most likely stratified their business to include dedicated client support positions. Any business taking this naming approach is doing so for one of two reasons:

- They want their business to look/feel larger than one person in a room with a computer.
- Their business is growing and they need to add bodies to handle the extra work.

Typical associates, group and team positions include: buyers agents, marketing and transaction support, etc..

Diana and I have opted to keep our business limited to the work load we can handle. This includes transaction coordination. When you are interviewing agents for the listing of your home, ask them the following questions:

- Who will be handling the day-to-day management of the listing?
- Who will answer the phone when someone calls from an ad or sign?
- Who will work on the marketing materials?
- Who's going to negotiate your deal? (you'd be surprised)

- Who will manage the transaction once an offer has been accepted?
- Who will host the brokers open house?
- Who will host the weekend open house?*
- If you're a buyer, who will show you properties?

Of these questions, Diana and I do six of the seven, always. *Open houses are the wildcard depending on how many concurrent listings we have and where the property is located. Even more stressful are agents who relegate all correspondence to an unlicensed assistant. When you're hiring a Realtor, don't you expect to work with the person you've hired?

Our recommendation and position is simple, if you're selling or buying real estate we believe that your primary point of contact should be the Realtor you've hired. Actually, it's spelled-out in the listing agreement and unless you opt to appoint a sub-agent, your point of contact should be limited to the names identified in the agreement you've signed.

If your agent is too busy to handle your listing or purchase, I'm sure you'll have no problem finding a Realtor who will successfully and professionally dedicate a reasonable portion of their daily resources to your specific needs and requests.

WHAT ABOUT ONLINE BROKERS?

Should you hire an online broker?

There's a new listing in Manhattan Beach that's listed with one of the well known online brokerages. Seeing this property got me thinking about the company's business model and methods. In reading their online marketing materials, they build an excellent case for why their model is superior to traditional brokerages. A flat fee for listing your home and 2/3's of the selling agent's commission rebated to the buyer, which sounds appealing, right?

So deceptively attractive!

Extremely attractive to first time buyers and families who trust online sales tools. However, contrary to the case that the company builds regarding its base of "experienced agents", their current model has "out of area" agents supporting markets they don't know or necessarily understand.

Many people draw a direct correlation between the demise of travel agents and stock brokers to the world of Realtors. Here's the big difference. Realtors have a HUGE responsibility to help their clients fully understand their transaction. This includes disclosure of local information related to the subject property. Agents who don't

do their job end up in court. This is exactly why Diana and I limit our practice to the South Bay and West Los Angeles. We don't have the knowledge or expertise needed to sell homes in California cities we don't know. Imagine a San Francisco agent conducting a transaction in Manhattan Beach. Sure, it can all be done by fax and email, but what happens if there's a problem? Agents who work areas they don't know are opening themselves up to litigation—in the eyes of the court, not knowing is not considered an excuse.

There's a lot of hoopla regarding the mass release of real estate agents "private MLS database" information. Media outlets and online bloggers say that this opening of the Realtor kimono will be the death of 5% and 6% commissions because everyone has access to the same info and market statistics. But, hasn't this always been the case? Wouldn't the average seller interview several agents and receive a complete CMA from each? These FREE reports have long been the tools that agents use to justify and position their recommended listing price.

Unlike online tools like Zillow, Housevalues, Redfin, etc, the CMA (competitive market analysis) is based on four data points: 1) recent area sales and listings 2) agent's experience 3) seller's moti-

vation 4) the property's pros and cons.

Online tools have no way of knowing the pros and cons of a particular home. This fact alone reinforces the value of local agents and their neighborhood knowledge.

A two-thirds rebate seems attractive

There's a short-sided aspect to the rebate model that makes buyers feel like they're getting easy money. The problem I see with rebates ties to the negotiation process. If what I believe is true, that agents affiliated with an online broker are either inexperienced or don't have experience working with \$1,000,000 plus transactions, their negotiation skills may cost the buyer more than the two-thirds rebate, in the long run.

The online model's success is directly tied to the economy. In a seller's market, homes tend to sell closer to or above the listing price. However, in a buyer's market all bets are off. Buyers can and do ask for everything under the sun. And, if the seller is motivated, they are willing to negotiate. Further, in a seller's market, the role of real estate agent can be mainly administrative, which is not the case today. Bringing buyers and sellers together is a delicate and tricky art.

Where's the broker?

Remember, listings belong to the broker and not the salesperson. Online brokers can be hundreds of miles away.

Brokers are the police for their sales force. Brokers are responsible to watch and police everything their agents do. This is nearly impossible for an out-of-area broker. How does this matter? Brokers who watch their agents' activities control exaggeration, Department of Real Estate regulations, misleading and/or fictitious advertising, fraudulent activities, etc. Without the brokers' watchful eye, all bets are off.

Online brokers do one thing fantastically, better than any local agents—their website and web tools are awesome. But, the website is about marketing, branding and technology, and has little or nothing to do with the actual sales process. There are brilliant minds looking for ways to make money in Real Estate (online). However, their biggest nut-to-crack relates to the people-centric nature of the business.

BUYING A PROPERTY

Once you are able to buy a home, it's best to act right away. Buyers often pay thousands of dollars more for the same house because they waited for the price to drop. Historically, house values increase. By acting quickly, you'll begin to realize the tax savings of home ownership sooner than later. As long as you realize that real estate is a long term investment and not a bank, owning your own home is still at the core of the American dream.

Above all else, it's imperative that you understand your financial position before you start down the path to purchasing a home. By arranging your financing in advance of your home search, you will avoid the disappointment of looking at properties you can't afford. Additionally, by getting pre-approved for your loan, you become in effect a cash buyer, which improves your negotiating power and strength of any offer you present to a seller.

Choose Blake and Diana Roberts as your Realtors

On the surface, real estate transactions seem relatively straight-forward. You find a property, you make an offer to the seller, the seller agrees, you buy the property. What most buyers don't see is all the "behind-the-scenes" work, which is

exactly what Blake and Diana Roberts take care of for you.

Beyond helping you locate a suitable property, we are expert negotiators who work as your advocates throughout the transaction. California real estate represents big money, which can lead to big legal problems if the transaction is not handled professionally. Choosing to work with Blake and Diana means your transaction will move forward on schedule, be predictable and close on time.

Once you have selected Blake and Diana as your agents, please view our relationship as a partnership. You benefit through our guidance, knowledge and market experience, we benefit by securing your trust and loyalty. Together, we will work as a team to secure the exact property that will meet your needs and budget.

How your Realtor makes money

The SELLER pays real estate agents a set fee for bringing him a buyer. The buyer does not normally pay real estate commissions. Also, not using an agent to help with your purchase will not reduce the purchase price of a home.

THE BUYER'S PLAN

Our goal is to locate you a great property and negotiate the best possible price for its purchase.

To achieve this, we develop a comprehensive buyer's plan with strategies and tactics engineered specifically for the swift, successful purchase of the property. A three-pronged approach is central to our results-driven plan.

Establish your real estate wants, needs & budget; build your profile by:

- Educating you about the buyer agency relationship
- Educating you regarding current market trends and area demographics
- Determining your desired budget, home style, location, and time line
- Evaluating your loan program or referring one of our affiliated lenders
- Establishing your pre-approval status prior to any showings

Assist you in locating, reviewing and choosing a desired property by:

- Providing you customized MLS reports based on your wants and needs
- Providing you general South Bay MLS

access via BLAKEandDIANA.com

- Working with you to select and target appropriate homes to review
 - Showing you selected properties
 - Debriefing, evaluating and ranking your target properties
- Facilitate the offer and escrow period by:**
- Counseling you on the best offer strategy considering the current market
 - Preparing and presenting your offer to the seller in person
 - Negotiating your best price and terms
 - Managing the escrow, contingency and inspection periods
 - Working with you to resolve any issues or concerns that may arise
 - Maintaining open communication lines with your lender, title and escrow
 - Confirming the closing and retaining a file on the entire transaction

BUYING A HOME IN 21 STEPS

1. Consult with Blake and Diana Roberts
2. Contact a mortgage broker or your bank to be pre-qualified
3. Apply for loan pre-approval (You must be pre-approved in order to move forward)
4. Select area and type of home you want
5. Preview homes; pick the one you want
6. Make an offer; write deposit check
7. Open Escrow - your check is deposited
8. Review and sign escrow instructions
9. Review preliminary title report
10. Do physical property inspection
11. Request repairs from seller
12. Review disclosure reports
13. Review termite and pest report
14. Order hazard and home protection insurance
15. Sign loan documents
16. Escrow closing procedures
17. Final walk-through
18. Loan funding
19. Documents recorded (This step happens one business day after loan funds)
20. Receive the keys to your new property
21. Move into your new home

WHO PAYS FOR WHAT?

Seller pays for

- Real estate commissions
- Escrow fees (split with buyer)
- County documentary transfer tax
- Applicable city transfer tax (split)
- Document prep. fee for deed
- Payoff of all loans in seller's name
- Interest accrued to lender being paid off
- Statement fees, reconveyance fees and any prepayment penalties
- Termite inspection
- Termite work (section 1 work only)
- Home warranty plan
- Natural hazard disclosure report
- Any judgements, tax liens, etc. (seller)
- Tax proration (any taxes unpaid at time of transfer of title)
- Any unpaid homeowner dues
- Any and all delinquent taxes, etc.
- Title insurance premium: owner's policy
- Shorewood processing fee
- Notary fees

Buyer pays for

- Escrow fees (split with seller)
- Applicable city transfer tax (split)
- Recording charges for all documents in buyer's name
- Termite work (section 2 work only)
- Home owner's transfer fee
- All new loan charges
- Interest on a new loan from date of funding to 30 days prior to first payment date.
- Inspection fees
- Appraisal fees
- Fire insurance premium for first year
- Title insurance premium: buyer's policy (based on total loan amount)
- Shorewood processing fee
- Notary fees

SELECTING YOUR NEW HOME

As you move ahead with your decision to purchase a particular piece of property, it's important that you not allow yourself to get emotionally involved, it's just a house.

As hard as this may be, you need to remain emotionally detached and above all else, you need to look at the property objectively, seeing it as it really is.

Look at the bones of the house

Look at the bones of the house and not the skin. The bones are things that cannot be changed such as location, view, floor plan, and lot size. The skin represents easily changed surface finishes like carpet, color and window coverings. Buy the house with good bones because the skin can always be changed to match your taste.

Most importantly, always have the property inspected by a licensed professional. Do not negotiate this out of the deal in order to save a few bucks.

Consider the following:

- Is there enough room for today and tomorrow?
- Are there enough bedrooms and bathrooms?
- Is the house structurally sound?
- Is the yard big enough?
- Do you like the floor plan?
- Will your furniture fit in the space? Is there enough storage space? Don't forget to always carry a tape measure when you're house hunting. Don't guess how big a space is, measure it.
- Does anything need to be repaired or replaced? Will the seller repair or replace these items?
- Imagine the house in good weather conditions and bad, and in each season. Will you be happy in the home all year round?
- Who will your neighbors be?
- How far away is the closest market, dry cleaners, restaurant, coffee shop or gym?

WHAT IS A BEDROOM?

What is a bedroom, that is the question.

The Uniform Building Code, which is adopted by virtually all cities and counties throughout California, requires a room to have a closet to be a bedroom. However, some locals have their own definition of what sort of space constitutes a bedroom, which includes a window or some other sort of secondary means of exit. A room that is the only access point to another room is not considered a bedroom, even if it has a closet. Further, if a home addition includes a sleeping area that is not permitted, it cannot be called a bedroom, even if its characteristics meet the definition test.

What about your house, or a house you're considering purchasing? Step one is to check with the city to see if the room you're questioning can be counted as a bedroom. When in doubt, check the public records.

Examples of rooms that are probably not bedrooms:

- Garages converted to living space, unless permitted
- Dens and offices
- Loft areas

Most sellers know that a three bedroom home

has more value than a two bedroom home, which is why we see agents and sellers alike stretching the definition of a bedroom in the listing of the property. From the buyer's perspective, it's all about disclosure. If the seller fully discloses that the extra "bedroom" isn't really a bedroom, then the buyer has the information they need to make an informed purchase decision.

SQUARE FOOTAGE DISCREPANCIES?

Square footage discrepancies between the MLS, tax records and an agent's marketing materials—what to do?

If you've been looking into real estate for any-time, or have listed your own home recently, I'm sure you've noticed that many agents include "BTV" within their MLS descriptions and on their marketing materials. BTV stands for *Buyer to Verify*. This language is a disclaimer from the agent and seller telling the buyer that it's their responsibility to investigate and confirm a property's stated specifications.

Many agents haven't noticed that the South Bay Board's outbound MLS emails include the following text as part of its footer:

Information is believed to be accurate, but should not be relied upon without verification.

Accuracy of square footage, lot size and other information is not guaranteed.

The most common discrepancies we see are:

- Square footage differences between the tax records, MLS, previous MLS listings and builder data
- Bedroom count differences between the

tax records, MLS, previous MLS listings and builder data

On a large home (over 3,000 sqft.) a few hundred square foot difference between tax records and the MLS entry probably won't make or break your deal. However, on a small 1,000 square foot home, 300 square feet represents over 25% of the property's living space.

Why are there different numbers?

For single family homes, especially an older property, the difference between public records and tax records is explained by property additions, remodels and modifications over the years. For example, the tax records may show a home is 2 bedrooms and 1,200 square feet. But, the home is listed today as a 5 bedroom with 2,800 square feet of living space. Explanation: possibly the addition of a master suite or a second floor, plus a little push here and there.

Townhomes are a little harder to explain because they really don't change in size over time. Typically, a discrepancy is introduced at some point during the property's first sale. The most common discrepancy we see is that the builder and seller data is larger than the official tax records

Within the MLS, the agent will disclose where they are getting their numbers:

- builder data
- seller stated
- estimated
- tax assessors data

It is your job to verify and feel comfortable with this information as you move forward in the sale.

What happens during the bank appraisal?

The appraiser always starts with the public, tax information first and then builds an accurate square footage number from there. Most appraisers will tape (measure) the house as part of their assignment and compare their results to the tax records. If there is a large discrepancy, the buyer will have the option to:

- cancel their purchase
- renegotiate the price
- move forward with their purchase as is

For those who use square footage numbers to calculate a home's value, even 200 feet can translate in to huge dollars. For example, a 1,500 square foot home selling for a cool \$1,000,000 would have a square footage cost of \$666. Using creative math, some buyers might see a 200 square

foot discrepancy as being worth over \$133,000 in their favor. In other words, the homes value should be adjusted to around \$870,000.

The preceding example clearly illustrates why square footage numbers are only a data point when determining a home's listing price, and not the only factor considered.

Once the appraiser has finished their report, which includes comparing the target home to at least three other like properties in the area, they will establish one of the following:

- the home has appraised at the selling price
- they will give the home a dollar value appraisal, which may be higher, the same as, or lower than the selling price
- they will establish that the home has not appraised

What should you do?

If a discrepancy shows up in your home purchase, don't immediately assume that the seller is trying to cheat you. Do your research and try to understand where and when the erroneous numbers were introduced. And more importantly, decide if the difference really changes your opinion about the property.

10 MISTAKES BUYERS MAKE

1. Too much online research

Be careful, too much online research can be overwhelming. Trust what your agents says.

2. Working with an out-of-area lender

An offer is more appealing if the lender is local and known by all of the agents involved.

3. Unrealistic expectations

Your budget is \$700,000 and you're looking at \$5,000,000 homes, you won't like what you can afford.

4. Looking at too many homes

You look at every home, and I mean every home on the market. Now, you're overwhelmed and can't make a purchase decision.

5. Not taking the advice of your agent

If you've picked a quality agent, take their advice. They know the market, prices, and the pros and cons of each property you'll see.

6. Working with an out of area agent

Working with an agent who doesn't know the area intimately, may cost you money in the long run. Simple items such as who pays what tax, if done wrong, cost you money.

7. Waiting for someone else to buy it

Not wanting to make an offer until someone else shows interest. If you like and can afford a particular home, try and buy it. Why wait for a competitor to drive up the price?

8. Not considering closing cost and supplemental taxes

Don't forget to add a little less than 1% of your purchase price to cash on hand needs. Supplemental taxes can be a shock, too. Ask your agent about these items, so you'll know what to expect.

9. Trying to negotiate verbally

As the market has slowed, many buyers toss verbal offers at sellers. Verbal offers don't work. To find out what a home can sell for, you need to put your offer in writing.

10. Getting stuck on a number

Time and time again, we've seen deals fall apart because the buyer won't budge off of a number they've set for themselves, even if the price in front of them is very close.

MLS TERMINOLOGY

Backup, Hold, Withdrawn and Pending, what do these terms mean on the MLS?

Contingent Sale

Although a transaction can be written and accepted as contingent, the South Bay MLS no longer offers a contingent status.

Backup Sale

For a particular reason, the seller is concerned that his accepted offer may not close. Examples of why listings are set to backup status include:

- Buyer financial concerns
- Market concerns
- Sense of security

When a listing is flagged as Backup, the seller is soliciting additional offers for negotiation and acceptance. In the event that the first position offer fails, the next accepted offer immediately kicks into action.

Hold sale

I don't know of any hard and fast rules regarding the Hold Status. In broad terms, the hold status is used for many reasons including:

- Seller is doing work on his property and wants to temporarily stop showings

- Seller wants his home off the market for a particular reason

Withdrawn sale

The listing agent has withdrawn a listing from the MLS, the property is no longer listed for sale and the terms of the listing on the MLS are no longer in effect. However, a withdrawn listing is still an active listing as far as the MLS is concerned and you may still be bound by the terms of your signed listing agreement.

Canceled sale

The seller has opted to remove his home from the market. The property is no longer listed for sale and the listing agent stops all marketing efforts.

Pending sale

For all parties, the accepted offer seems to be solid enough to cease the solicitation of additional offers.

I've heard that somewhere between 10% and 25% of all escrows fall apart, and this includes deals that looked great on paper, but couldn't close. The only 100% transaction is a closed transaction.

CAN YOU CANCEL YOUR DEAL?

The buyer can cancel under certain circumstances, but there are rules to the process.

Real estate transactions are based on the legal premise of “Good Faith.”* It’s assumed that the buyer intends to buy the property, and that the seller intends to sell the property. If you make an offer to purchase a particular home, in good faith you are telling the seller that you intend to buy his home.

If you negotiate for a property, reach an accepted offer and then cancel because you’ve changed your mind, you ARE at risk of losing your initial deposit, which is usually between 2 and 3% of the purchase price.

Although, we rarely see this happen, in a down market anything is possible. If you’ve halfheartedly entered into contract to buy a particular property, the home is off the market and not available for anyone else to purchase. When you pull out, it’s possible you’ve “damaged” the seller. As previously mentioned, we never actually see this happen, but it is possible and within the seller’s legal rights to question why you are pulling out of the deal. In most transactions the seller wants to move on and not get tied up in legal issues, so he will let his buyer cancel.

When can a deal be canceled?

There are many reasons that allow a buyer to pull out of a deal, but they are all based on the belief that the buyer has been, and is acting in good faith. Depending on how the purchase agreement and counter offers were written, some reasons a buyer can cancel include:

Inspection/owner disclosures

Found defects, neighborhood issues, seller unwilling to correct major issues

Loan

Not being able to get a loan based on the terms agreed to within the purchase agreement

Appraisal

The home is not worth what you agreed to pay for it

Title

There is a cloud on the title, which makes it hard or impossible to transfer ownership

*I am not a lawyer! if you are thinking of canceling a deal you’re in, talk to your agent and if needed, your attorney.

CONTINGENCY OPTIONS

The contingency clause is used to protect both the buyer and the seller throughout a real estate transaction.

There's nothing worse than learning that the home you're buying has a severe defect. The following list of contingency options should be considered before you negotiate a home purchase or sale. With few exceptions, you should always include standard contingencies, or conditions in the purchase contract. You may also want to include contingencies that are unique to your situation.

It's important to understand that the real estate contract is designed to protect both the buyer and the seller in a transaction. If there is something unique about your transaction or situation, document it in the contract.

In general terms, if the seller doesn't satisfy a contingency, the buyer can cancel the contract. On the other hand, if the buyer doesn't satisfy a contingency, the seller can cancel the contract and possibly keep the buyer's deposit.

Financing/Appraisal

Buyer can back out, if loan and/or appraisal is not approved.

Inspections

Buyer can back out, if inspection of property condition, pests, lead, radon levels or the neighborhood itself are unsatisfactory and if the buyer and seller can't agree on remedies.

Title

Buyer can back out, if property title is unclear.

Contingent sale

Buyer or seller can back out, if buyer's current home fails to sell within a certain time limit.

Insurance

Buyer can back out, if unable to obtain insurance.

Disclosures

Buyer may be able to back out, if seller fails to disclose such issues as earthquake hazard, flood hazard, lead (in homes built before 1978) or other material facts or defects about the property.

Contract review

Buyer or seller has the right to have the contract reviewed and approved by an accountant or attorney before sale can move forward.

FIRST TIME BUYER SYNDROME

Many first-time home buyers enter the transaction not understanding the complexity of their purchase or the roles each participant involved plays in driving the deal forward to change of ownership and a closed escrow.

Motivation, location, quality, desirability, price and hundreds of other factors are used by home buyers to determine if a given property is their “target.” However, price is generally the number one criteria used to weigh a potential property’s overall desirability.

Many first time buyers have been renting, in some cases for years, and have established themselves in fantastic neighborhoods. When these buyers start looking for a new home to purchase, they often want to match or exceed their current rental situation.

The first thing these buyers come to terms with is that they are unable to financially match their current rental home in either location or features. This is not always the case, but it does hold true most of the time.

Once a first time buyers start to calculate the true cost of home-ownership, they quickly decide

that they’re better off continuing with their life as renters. This short-sighted reaction to the home purchase process is extremely common.

Renters forget that they are paying someone else for the use of their walls and floors. And most importantly, they forget that as a renter, they build zero equity in their home.

Renters help their landlords get rich!

Making the right home purchase decision might require a buyer to take a major step down in quality of living standards if the long-term goal is to eventually buy a dream home in a dream location.

Taking a step down is an end to a means

When you own real estate, your money is working for you, plus you’re able to leverage the banks money, too. For example, you buy a \$500,000 condo and put down 5% on the purchase. The bank supplies the remaining \$475,000! When you sell the property, you have a financial windfall on the entire sale price. Here’s a simple scenario: after 5 years, your \$500,000 condo sells for 650,000. Using the banks money, you realize a \$150,000 gain/profit. You can’t do this renting, can you?



THE PEOPLE BEHIND YOUR DEAL

The team behind Blake and Diana cover many of the administration aspects of each transaction. We have developed a relationship with each of the people and companies listed below, and we know that their association with your purchase assures you a trouble-free, closed transaction.

Greg Snider

USA National Title
310.798.2928/310.710.1282

Bennett A. Rheingold

Attorney at Law
310.214.1477

Mitra

Pier escrow
310.798.5507

Wendy and Mike

All City Termite
310.796.0822

Jonathan O'Donnell

310.798.5507

Paul Ferguson

Sherlock Homes Inspection
310.546.7588

Alex Kuczynski

Professional Home Inspections
800.454.6630

Helene Lohr

Farmers Insurance
310.546.7795

THE MORTGAGE BROKER

What is the difference between a direct lender and a mortgage broker?

In the simplest terms, a mortgage broker is able to find you a favorable mortgage by submitting your loan application to their pool of possible lenders. Unlike direct lenders, mortgage brokers are able to work with banks, investment groups and other financial sources to secure you the best possible loan program. Mortgage brokers work with all the lenders you've probably already heard of including: Wells Fargo, Credit Unions, Bank of America, JP Morgan, Chase and others.

An example of a direct lender would be your bank. When you work directly with your bank, your loan options are limited to programs that your bank is currently promoting.

Further, mortgage brokers often have access to loan programs within the banks that are not necessarily available to the bank's customers.

The more experience a mortgage broker has, the more contacts they will have developed within the lending community. Whether your FICO scores are in the 800's or you've had a few bumps in your finances, the more contacts a mortgage broker has in the industry, the better loans they'll be able to get.

Because every loan application is unique, you'll benefit by working with a local, respected mortgage broker.

Programs available from our preferred, local mortgage brokers include:

- Interest only loans
- Purchase loans
- Refinance of your current home
- Bridge/swing loans
- Investment/commercial loans
- Construction
- Equity lines

THE INSURANCE AGENT

Home Insurance

Our homes and personal property can be our biggest assets. Whether you own a home or condo or rent, we have a policy that can be tailored to fit your needs. You may be concerned about the correct amount of insurance on your home, what's included, or about how to properly cover some special items or exposure. We can help!

About Helene Lohr

Helene Lohr has owned and operated her Farmers Insurance Agency in the South Bay since 1976. During that time she has garnered numerous regional awards, as well as her district's "Professional Agency Award", which takes into account all aspects of agency operations and customer service. She also has earned Farmer's Masters, Toppers and Championship awards.

While a large part of her agency's operations are devoted to auto and home insurance, Helene is also a CQA designated Commercial agent with Farmers, underwriting Small Businesses and Workers Compensation, Employers Practices Liability Insurance, Apartment Buildings and Condominium Associations.

Contact Helene Lohr
The Lohr Insurance Agency
310.546.7795

For all of your insurance needs:

- Home
- Businesses
- Office
- Retail
- Auto
- Wholesale
- Industrial
- Umbrella
- Workers Compensation
- Apartment Buildings
- Life Insurance - Term & Whole Life
- Condominium Associations
- Disability
- Earthquake
- Long Term Care

Note: you may encounter difficulties in obtaining property insurance if known hazards such as cracks in a driveway, broken stairs, leaky roofs, etc., exist. You need to make sure that someone takes responsibility for those repairs that are necessary to make the property insurable.

UNDERSTANDING TITLE

What is Title Insurance?

A title insurance policy protects a real estate owner or lender against any loss or damage they might experience because of liens, encumbrances, or defects in the title to said property, or the incorrectness of the related search.

How title differs from casualty insurance

Casualty Insurers (car, life, health, etc.) assume risk for future events, collecting monthly or annual premiums. A title policy insures the past of the real property and the people who owned it, for a one-time premium paid at the close of escrow.

How is a title policy created?

After the escrow officer or lender opens the title order, Lawyers/Land America Title begins a search of the public records including the County Recorder, Federal and State Agencies, and County and City Offices. A preliminary report is issued to the customer for review and approval. All closing documents are recorded upon escrow's instruction. When recording has been confirmed, demands are paid, funds are disbursed, then the actual title policy is typed and sent to the insured.

What does title insurance cover?

Title insurance protects against claims from various defects such as another person claiming an

ownership interest, improperly recorded, fraud, forgery, liens, encroachments, easements and other items that are specified in the actual policy.

Who needs it?

Purchasers and lenders need title insurance to know the property they are involved with is insured against various possible title defects. Whether it's a sale, refinance, or construction loan, the seller, buyer and lender all benefit.

Note: typically, the buyer pays for their lender's title policy as one of their escrow expenses. Further, the seller's title policy is more expensive than the lenders.

Example title insurance rates

On a \$1,000,000 purchase:

Buyer's Policy: \$944 (assumes \$800,000 loan)

Seller's Policy: \$3,090 (if the property has had any sales or refinancing within past 5 years, title company's give a 20% reduction. For this example, the number would be \$2,472.



VESTING CHART

Understanding the tax and survivorship implications of your vesting choice is extremely important. Unless you completely understand your options and vesting choices, it's imperative that you seek the advice of your professional financial advisor. Note: If on your own, use this language: "your name, a single man (woman)."

	Tenancy in Common	Joint Tenancy	Community Property	Community Property with right of survivorship
Parties	Two or more persons	Two or more persons	Husband and wife only	Husband and wife only
Division	Ownership can be divided into any number of interest, = or ≠	Ownership interest must be equal	Ownership interest must be equal	Ownership interest must be equal
Creation	One or more conveyances (Law presumes interest are equal if not otherwise specified)	Single conveyance (creating identical interest) Vesting must specify joint tenancy or law presumes tenancy in common	Single conveyance or presumption from marriage	Single conveyance and parties must indicate consent, which can be indicated on deed
Possession & Control	Equal	Equal	Equal	Equal
Liens Against One Owner	Co-owner's interest not subject to liens of other debtor/owner but forced sale can occur	Co-owner interest not subject to liens of other debtor/owner, but forced sale can occur if prior to the debtors death	Entire property subject to forced sale to satisfy debt of either spouse	Entire property subject to forced sale to satisfy debt of either spouse
Transferability	Each co-owner may transfer or mortgage their perspective interest separately	Each co-owner may transfer their interest separately	Both spouses must consent to transfer or mortgage	Both spouses must consent to transfer or mortgage
Death of Co-owner	Decedent's interest passes to his/her heirs by will or intestate	Decedent's interest automatically passes to surviving joint tenant (right of survivorship)	Deceased's interest passes to spouse, except 1/2 of said interest may pass to devisee by decedent's will	Decedents interest automatically passes to surviving spouse due to Right of Survivorship
Possible Advantages and Disadvantages	Co-owner interest are separately transferable	Right of Survivorship (avoids probate)	Qualified survivorship rights. Mutual consent required for transfer. (tax advantages)	Right of Survivorship (avoids probate). Mutual consent required for transfer.

UNDERSTANDING ESCROW

An escrow is created when money and/or documents are deposited by two or more people with a third party* which are to be delivered upon the happening of certain conditions.

**The third party is known as the escrow agent or escrow holder.*

What is an Escrow?

The authority given to an escrow holder is strictly limited by instructions provided by the parties involved. Consequently, an escrow holder acts on mutual instructions deposited into escrow and DOES NOT represent any party. The escrow officer is authorized by instructions to allocate funds for items during the escrow period, such as real estate commissions, title insurance, liens, recording fees and other costs. Instructions also specify the method of collecting funds, proration issues, time limitations and all the terms of the transaction. The escrow process protects all parties involved by retaining money and documents until the mutual instructions are met. See page 13 for the 22 steps to selling a home.

In the Beach Cities, the life of an escrow would include many of the following steps:

- Escrow is opened.
- Good faith check is deposited.
- Escrow drafts “escrow instructions” based on the terms of the consummated purchase agreement.
- Escrow orders a preliminary title report, city report (if required) and a natural hazard report.
- Escrow officer coordinates document signers with buyer’s lender.
- All parties resolve outstanding issues that might hinder the sale.
- Buyer deposits required funds into escrow.
- Escrow contacts banks, IRS, lenders, or any other organizations that may have secured liens and determines their current payoff amounts, arranges payoff.
- Loan funds (1 day).
- Escrow pays banks, IRS, lenders, and private parties to re-convey the outstanding liens.
- Title company records property with county registers office, property changes hands (2nd day).
- Selling agent provides buyer with keys.

THE APPRAISAL

The appraisal process consists of several steps including a professional comparative analysis of like properties.

The steps are:

1. Research the subject property as to size, bedrooms, baths, year built, lot size and square footage.
2. Gather data of recent sales in the subject neighborhood. The appraiser needs to locate at least three and preferably more, similar-sized homes which have sold within the past 6 months. These homes are considered the Comparable Properties or *Comps*.
3. Field inspection consists of two parts: First, the inspection of the subject property. Second, the exterior inspection of the comparable properties which have been selected to estimate the value of the subject property.

The subject inspection consists of taking photos of the street scene, front of the home and rear of the home, which may include portions of the yard. The appraiser will make an interior inspection for condition, noting any items that would detract from or add to the value of the home. He will also draw a floor plan of the home while doing the inspection.

The inspection of the comparable properties is limited to an exterior inspection. For features that cannot be seen from the street, the appraiser has reports from Multiple Listing Services (MLS), California market Data Cooperative (CMDC), county public records, and appraisal files along with other sources to help determine the condition and amenities of the comparables. After the field inspection has been completed the appraiser must determine which comparable properties most resemble the subject, making slight adjustments to the estimated value. This method of estimating value is called the Direct Sales Comparison Approach to Value, and it accounts for nearly all of the considerations in determining value of a single family home.

Because banks and lenders determine their final loan approval based on the appraisal, it's important that the accepted offer and final appraisal match. If the appraisal is lower than the accepted offer the buyer will be asked to add additional funds to the transaction to balance out the inequity or, the buyer can cancel the contract and not buy the property.

THE HOME INSPECTION

From beach front shacks to the most opulent new construction in the Hill Section of Manhattan Beach, the hiring of a “Home Inspection” professional is an important step in your purchase process.

Assuming that you’ve just successfully negotiated the purchase of a South Bay home, you’ve probably got somewhere around 17 days to complete your investigations regarding your new home. One of these investigations is the Home Inspection. Typically, the results of the home inspection will lead you to ask the seller to correct or change found issues. In effect, this is a mini-negotiation between buyer and seller and can cause the cancellation of the deal if both parties don’t see eye-to-eye.

I feel pretty safe in saying that there’s never been a home sold that is 100% perfect. There’s always something that is missed, neglected or overlooked that needs to be corrected prior to the close of escrow. The issue at hand is who is going to pay for the work—buyer or seller?

The home inspector’s job

The inspection process always finds faults with a house. Depending on the inspector and how

they explain the seriousness of the found issues to their clients, they can easily kill a deal. Even in homes that have a perfect A+ inspection, little items are found. Remember, a home inspector’s job is to find problems, and they will! It’s your job as the buyer to evaluate the issues, determine if you want them repaired, or if you can live with them as-is.

Typical items that show up in most inspections:

- Hairline stucco cracks
- Moisture found under sinks (small leaks)
- Water heaters are rarely strapped correctly to meet earthquake safety standards
- Water heaters not installed with flexible piping for earthquake safety
- Water heater drain lines not installed, no pan under water heater
- Doors not latching correctly
- Issues with the furnace (won’t come on, display damaged, old filter)
- Issues related to the electrical panel (switches not marked correctly, panel too small for the house)
- Power outlets in the kitchen and bathrooms not correctly wired for safety around water

- Issues with the garage door not closing correctly
- Minor appliance issues (condensation found around refrigerator door)
- Evidence of past water leaks or obvious dry wall repair work
- Cracks in cement paths and walkways

Typically, the more a buyer feels they over paid for a home the more items they will ask to be repaired. Conversely, the more a seller feels the house has been given away, the less willing they will be to pay for corrections.

Basic guidelines

To protect themselves from possible legal issues after the property has been sold, a seller should always correct problems that are detected related to safety. For example, a damaged heating system, leaking roof, issues with the electrical panel, water intrusion, etc., should be repaired by the seller.

Who pays for what is all about motivation. If the seller wants the home sold, it's in his best interest to consider crediting the buyer with funds to correct found issues.

Issues that could raise a yellow flag and warrant further investigation:

- Stucco cracks large enough for a nickel to fit into
- Moist drywall around windows
- Moisture stains anywhere in the house
- Furnace over 20 years old
- Roof over 25 years old
- Drain lines on older homes
- Unpermitted repairs and/or additions
- Pooled water on roof-decks and balconies
- Cracked roof tiles
- Water heater over 10 years old
- Cracks in the foundation
- Excessive settling

Musty, earthen smells in basements or other below grade rooms (the nose knows)

Of course these are just examples of items an inspector might find. Every home is unique and will present itself with its own unique set of issues. Homes built after 1998 are generally built to the most current uniform building code standards, with local city codes taking precedence.

What does it cost?

Typical fees are in the range of \$350 to \$500.

TERMITE INSPECTION

With the exception of a couple of new construction projects we've sold, virtually every home we've helped our clients buy or sell have needed some form of termite treatment.

On average, we see termite reports that call for treatment and repair fees in the range of \$300 to \$2,500. As long as the repair work is completed to quality standards, and that the home is certified to be free of infestations, termites should be of little concern to a home buyer. Don't freak out if the home you're buying has termites, they're everywhere in California.

What is Section I and Section II work?

Section I conditions involve infestations and/or infections, damage caused by infestations or infections and/or conditions that have resulted in infestations and/or infections.

Note: most offers you'll create specify that the seller will pay to repair any and all section I work.

Section II conditions are issues that might lead to infestation and/or infections but have not yet materialized.

What about a termite guarantee?

Unless the house is completely sealed in a tent, there's no way for a termite company to 100% guarantee that the house is termite free.

Although the actual warranty varies company to company, the termite inspection either identifies active termite (or other wood destroying organisms) issues, or labels the property as being clear and free of termites. In general, whether work is required to eradicate an infestation or the house is clear, the termite company provides a one year warranty against ongoing termite issues.

Here's where it gets a little tricky. If you suspect your home has a termite problem and it was recently inspected, step one is to get the termite company back to the property.

In most cases, the termite company will treat the area locally at no charge. If it's a new infestation and there's actual repair work needed, the treatment will probably be gratis, but you'll need to pay for the cost of any repairs.

Although uncommon, a buyer can ask a home seller to pay for repair work after close of escrow if it's determined that the original termite company missed something or did an inferior job.

NATURAL DISCLOSURES

California State law, Assembly Bill 1195, mandates that sellers of real estate and their agents MUST disclose to the buyers whether or not the property being sold is in any of the following natural hazard zones:

- Flood Hazards
- Fire Hazards
- Geologic Hazards

Therefore, to comply with the law and to protect yourself from liability it is recommended that a Property Disclosure Report is ordered, which:

- Fully complies with California AB1195 law
- Exempts you and Blake and Diana from liability
- Discloses all natural hazard zones in an easy to understand report
- Gives errors and omissions insurance protection to you

What areas are considered natural hazard areas?

Below are some natural hazard areas:

- Zone A of the flood insurance rate maps issued by the Federal Emergency

Management Agency pursuant to the National Flood Insurance Act of 1968.

- An area that may be at risk of forest fire or brush fire.
- An earthquake fault zone (usually about ¼ of a mile radius).
- A seismic hazard zone (risk of damage by ground shaking, landslide or soil liquefaction).
- Radon zones, which are throughout Southern California.
- An area which will flood if a dam breaks. A property must be marked as being in a natural hazard area unless a form prepared by an expert according to Civil Code Section 1102.4 is attached.

What is the liability?

Liability comes from not disclosing available and/or known information, and the failure to disclose results in material damages. If it can be proven that the information was known and/ or reasonably available to the seller or the seller's agent, then a liability case can be established.

WHAT ABOUT SHORT SALES?

Short sales and foreclosures have been in the spotlight in the last couple of years, but are they worth your time and investment?

Firstly, it's important to understand how a short sale and a foreclosure differ.

A short sale is a step in the foreclosure process and represents a home owner's desire to sell their property for a sum less than the amount is actually owed to the bank or lien holder.

A foreclosure is when the bank or lien holder has taken, or is taking steps to take possession of a property. Short sales do not necessarily represent a home owner who is in foreclosure.

When you see homes advertised as being a short sale, and their list price seems too good to be true, watch out. As the saying goes, there's no free lunch.

Most short sales represent a home sellers' "hope" that their mortgage holder will accept their short sale rather than go into and through the full foreclosure process. The problem is that many short sale listings haven't opened a dialog with the lender as they are waiting until they have a deal to negotiate with.

Can the deal be closed?

Banks know that a foreclosed home will cost them at least \$60,000 in losses and administration, and they know that working with a seller towards a "short pay off" scenario is usually in their best interest—banks are in the money business and they don't want to have a bunch of foreclosed homes on their books that they're having to carry month after month.

So yes, you can probably close your short sale transaction, but it might takes a long time to be negotiated and for the bank to accept the short pay off.

What's the trick?

No tricks here, just a big seller's contingency. If the lender is unwilling to accept the short pay, then the seller has the option of cancelling the contract. In the world of short sales, there are no guarantees and it's possible that you'll lose any money that you've laid out for inspections and appraisals.

What to expect in a short sales

Months of waiting and the deal may never close. On the other hand, you might find an amazing deal, below market value.

FOR SALE BY OWNER

We agree... you CAN buy your own property! But, it might cost you.

Just the facts

- Only 4% of For Sale By Owners sell themselves and the other 96% of homes are sold by real estate professionals.
- Only 1% of buyers end up buying a property through a traditional open house.
- Only 3% of buyers purchase homes advertised through classified ads.
- The FSBO's chance of being civilly sued is 3 to 4 times higher than a broker represented/MLS listed home because they may not have the skills or knowledge to make sure that the deal is completed to the letter of the law.
- The odds of an FSBO deal falling apart is 50% higher than broker represented deals.
- Buyers that buy an FSBO property are looking for a deal and expect to pay less than the market value because they know that the seller is not paying commissions. FSBO sellers are trying to maximise their profits and typically price their homes above market value.

Choose to work with an aggressive team like Blake and Diana, who will help you keep your cost down. We know how to negotiate for a property's best price.

2008 and beyond will be a buyers market, which means you'll need the best tools to negotiate with sellers who haven't come to terms with the "new" real estate market. Sellers will continue to overprice their homes and wonder why they have not been able to attract qualified buyers.

YOUR CREDIT SCORE

As powerful as the Internet is, don't let your own online research stop you from moving forward with a real estate purchase.

Only a mortgage broker, bank, or private lender can determine your individual credit worthiness.

Don't assume that a low credit score will preclude you from securing a quality mortgage product. Most lenders will look at your overall financial situation when reviewing your file. Life changing events such as a divorce can wreck havoc on your credit; lenders understand this, and adjust their decision making process accordingly.

A credit score, commonly known in the lending business as a risk score, helps the credit grantor analyze your creditworthiness and make an objective decision regarding your ability, likelihood and timeliness that you will repay your debt.

How your credit score is calculated?

Your payment history accounts for 35% of your score.

Paying your bills on time is the single most important way to obtain a high credit score. Generally, late payments will remain on your credit report for seven years.

How much you owe accounts for 30% of your score

This part of your credit score looks at the amounts owed on various accounts compared to the available credit limits. Lenders look at this information to determine if you are, or will probably become financially overextended.

Our advice: keep your balances low and your accounts current on your unsecured debts.

Your credit life accounts for 15% of your score

This part of your credit score looks at the longevity of your credit accounts. Naturally, the longer you've had credit, the higher your score will be for this section. Lenders want to see that you've had credit, use your credit wisely, and repay your debts in a timely fashion.

Credit applications account for 10% of your score

If you open several credit accounts within a short period of time, you will be seen as a greater risk of becoming overextended. Credit inquiries age off of your report at six months. Multiple credit inquiries from lenders will also lower your score.

Your credit types account for 10% of your score

This is pretty straight forward. Lenders look at your credit blend, they look at the types of credit you have and where you stand on each account. Types of accounts include credit cards, retail accounts, installment loans, and mortgage loans.

How is your credit score used?

When you submit an application for credit, the lender will request your credit scores, which are calculated using information from your credit reports. Credit grantors such as banks, credit card issuers, mortgage lenders and finance companies use your credit score to approve or reject your application.

Credit scores are calculated using information from millions of consumers with the help of computer programs known as scoring models. These programs track consumers' past credit files over a period of several years to develop a credit profile for a large base of credit grantees. To calculate your score, your individual credit profile is compared to the base information.

Your credit score indicates your projected ability to repay the credit extended to you.

NOTE: Credit scores are a snapshot in time. As

information is added or deleted from your report, the score will change.

Would you like to see your credit report?

Personal credit reports may be obtained from the following companies:

Equifax: 800-865-1111

Experian: 888-397-3745

Trans Union: 800-888-4213

Quick tip: Credit reports do not automatically include your credit score. To see what lenders see, including your score, check out MyFICO.com. Each report is \$15.95.

WHAT ARE “POINTS”?

What are loan points?

Points are an up-front charge that the lender adds to the overall price of the mortgage. Each point equals one percent of the loan amount. Lenders use the money to pay for loan related costs and to keep loan interest rates lower. Loan points will lower the interest rate. There are two primary kinds of points. Lenders might charge origination points to cover expenses, or they might create an opportunity for borrowers to pay discount points to reduce the loan's rate.

Do the number of points change or fluctuate?

YES — sometimes daily. World events, financial news, stock market performance and other things can determine whether points go up or down. But ultimately, it is the lender's decision and it is not set by government or other regulation. Mortgage lending is an investment. So, if mortgage loan rates drop lower than other investments, such as stocks and bonds, investors will move away from the mortgage market. Lenders use points to encourage borrowing and to stay profitable.

Who pays points?

It depends on the loan. For an FHA, buyers usually pay the points or loan origination fees, while the buyer or seller can pay the discount

fee. When it comes to VA loans, buyers usually pay the points and the funding fee, and the seller pays the discount fee. Finally, on a conventional loan anything goes: the buyer or the seller can pay the fee or they can decide to split it.

Is there a way to lock-in points?

For conventional and FHA loans, many lenders give you the opportunity to lock-in rates at any time for a specified period — typically anywhere from 30 to 180 days. The longer the lock period, the higher the risk for the lender and therefore the higher the cost for the borrower.

Are points tax deductible?

Points are tax deductible in the year they paid if the points meet certain conditions. The mortgage must be secured by your primary residence — the home that you live in most of the time. The home loan must be used to either purchase or build your home. Points must also be clearly stated on the HUD1 settlement statement. There are other conditions as well. If conditions are not met, points can still be deducted by amortizing them over the life of the loan. If the loan is refinanced, the remaining unclaimed points can be deducted in the year the original loan is paid off.

WHAT IS PMI IN A LOAN?

PMI, or Private Mortgage Insurance makes it possible for qualifying buyers to obtain mortgages with a down payment as low as 3%.

With rising home prices, many buyers especially first time home buyers are unable to front the customary 20 to 30% down payment that most lenders have historically required. PMI insures the lender's investment when a buyer has contributed little or nothing financially towards their home purchase.

What is private mortgage insurance?

Private mortgage insurance is a type of insurance required by the lender that helps protect the lender against losses due to foreclosure. This protection is provided by private mortgage insurance companies and enables lenders to accept lower down payments than would normally be allowed.

Who needs PMI?

If your down payment is less than 20% of the home's negotiated purchase price, the lender will require the borrower to carry PMI.

How long must a borrower carry PMI?

PMI can usually be cancelled by the home buyer once they have 20% equity in the property. Usually lenders will require an appraisal of the

property to verify the equity.

How much does PMI cost?

The average cost of PMI is between \$300 and \$900 per year. Your lender will provide you with the PMI costs associated with your particular loan product. Premiums are based on the amount and terms of the mortgage and will vary according to the loan-to-value ratio type of loan, and the amount of coverage required by the lender.

What are the payment options for PMI?

PMI can be paid on either an annual, monthly or single payment premium plan.

YIELD SPREAD PREMIUM—YOUR LOAN!

Comparing loans and mortgage brokers? Ever wonder how mortgage brokers can make extra money on your transaction?

Economists believe that there's more to the current mortgage crisis than the sub-prime fallout, and that the actual cause maybe mortgage brokers who inflate their client's interest rates to secure large lender rebates.

My mortgage broker drives a Bentley

Getting a good loan can be a slippery slope. At the highest level, all loans include fees and costs, but there may also be negotiated rebates that the mortgage broker will receive from the lender as part of their compensation. These rebates can be 2,3 or even 4% of your loan amount.

For example, maybe your credit isn't perfect and your mortgage broker has locked you into an 8%, 30 year fixed, \$1,000,000 loan—congratulations! But, here's what might be happening in the "back room." Maybe you actually qualified for a 6.5% loan and your mortgage broker "steered" you into the 8% program. When the loan closes, the lender will rebate the mortgage broker the delta between the wholesale rate you qualified for and the rate that was sold to you. In this case,

\$15,000. This rebate is also known as the Yield Spread Premium (YSP).

Caveat emptor

NOT ALL MORTGAGE BROKERS ARE ROGUE AGENTS. In very general terms, most honest mortgage brokers will generate income equivalent to 1% of the loan amount (give or take a little.)

Is the YSP always a bad thing?

No, absolutely not. When working with a mortgage professional who puts your needs ahead of their desire to sponge money from you, YSP's can be used for:

- To help pay closing costs
- To help offset cost on a refinance
- To cover fees, costs and expenses in a "0" point, "0" fee loan
- To compensate the broker for particularly difficult and time consuming loans
- Plus 101 other legitimate reasons

YSP is absolutely a fantastic tool when used with the knowledge of the borrower or for the borrowers benefit.

When is the YSP a bad thing?

- When the lender or mortgage broker try to hide the rebate
- When the lender or mortgage broker put there financial gain 100% ahead of your needs
- When a mortgage broker is dishonest with you about their fees
- When a mortgage broker puts/steers you into a loan program that is at a higher interest rate than you qualify for

What some mortgage brokers say about YSP?

- This is how we make our money
- It's paid to us by the lender and as such, the "client" shouldn't care*
- Without rebates mortgage brokers will go out of business

Another example

Michael the mortgage broker recently assisted his client in securing a "great" interest rate after shopping the client's "package" within his pool of investors and lenders. As listed in Michael's Good Faith Estimate, he was to be compensated \$2,500 for his mortgage broker services. In addition to the broker's commission, the good faith

estimate listed several other fees and 3rd party costs.

Because interest rates are still near historic lows, Michael was able to lock this client into a 6.5% loan—which seemed like a fantastic deal, right?

Here comes the tricky part. Because of the timeline used by lenders to complete loan packages, the client won't see their full loan disclosure until they are signing loan documents, which normally happens a few days prior to the funding and closing of a deal. For Michael's client, there was a line item paid by the lender to the mortgage broker for \$18,000. Of course the client was ecstatic that the lender was paying the \$18,000, no-harm-no-foul and the client goes forward with the loan (ouch)!

What's really happening in this \$18,000 windfall example?

*This is a 1% Yield Spread Premium at work. Without the YSP, the client should have received a 6% interest rate. Over the first five years of the loan, the extra .5% represents a whopping \$43,000 in extra interest.

THE “AS-IS” PROPERTY

Actually, it's the almost “as-is” sale. In California, the sellers cannot waive their responsibility to disclose material facts about the property.

In general, the phrase “as-is” means that the property is being sold in its present condition and without a warranty.

Buyers have basic expectations regarding the habitability of any property they are interested in purchasing. Generally, this means that the roof is free of known leaks and the home's plumbing, electrical and other systems are in working order. If there are problems with the property, the seller must disclose this information to the buyer.

What “As-Is” really means

What the “as-is” condition clause really communicates is that the seller will not be responsible for the cost of repairing any defects, and that the buyer is taking the property with all obvious and patent defects.

There is a catch, though. The “as-is” seller is not insulated from any liability stemming from intentional or negligent misrepresentation, or for failing to reveal concealed defects not apparent during an inspection.

When there are several buyers going after the same listing, the savvy buyer might use the “as-is” clause to bolster their offer against the competition. In this situation, sellers prefer an “as is” offer because they know there will be no request for repairs. If you choose to go this route, make sure that your “as-is” offer includes an inspection contingency.

The bottom line

Buyers often see the “as-is” condition as a red flag, that there's something seriously wrong with the property. Actually, this is often not the case. Many “as-is” sellers are simply saying, “I'm not going to fix anything.”

What's most important here is to never forget that a home purchase is about negotiations. In a soft market, most sellers are willing to address and repair their home's defects.

COST TO BUILD

What's the cost per square foot to build in Manhattan Beach?

The three numbers we hear most often from builders are: \$200, \$225 and \$250 per square foot to build in Manhattan Beach. The \$200/\$225 number comes from the more prolific builders, while the \$250+ estimates come from builders who are doing a project or less per year.

New construction that is built with a basement area have higher building costs because of the additional work that's required to design, engineer and build below grade living space.

When we're trying to establish the break-even cost of new construction projects, we like to use the \$250 number as it seems to bring us the most realistic results.

We're also told that depending on a property's location and features, some new construction projects in Manhattan Beach have had square footage costs well above \$500.

Local South Bay builders

- Matt Morris Development
- Schaar Homes
- Dennis Moloney, Moloney Development
- Lazar Design Builders
- Baldwin Construction
- Ken Johnson Development
- Gary Lane, Lane Building
- Sexton Homes
- Mike Davis Custom Homes
- C and C Partners
- Gary Hyatt
- Arbor Development
- Le Beau Homes
- Wilson Construction
- David Watson

TAXES—CAPITAL GAINS & LOSSES

As an investor, you can receive two types of income: ordinary income and capital gains. Ordinary income includes dividends and interest you receive. You have a capital gain when you sell a capital asset for a profit. Any asset you hold as an investment (stocks, bonds, and real estate, for example) is a capital asset. Note: Capital assets do not include supplies (such as paper and pens) or inventory (anything you regularly sell to customers in your business). Investment assets such as stocks and bonds are not considered inventory — even if you regularly sell them. Of course you can also lose money when you sell a capital asset, which is a capital loss.

Advantages of capital gains

Capital gains are better than ordinary income for two reasons. First, you don't pay tax on a capital gain until you sell the asset. Normally you can choose whether to sell sooner or later, so you control the timing of your gain or loss. For example, you can decide to sell late in December or early in January, depending on which year you want to report your gain or loss. Generally speaking, you don't have that kind of choice with ordinary income, such as interest and dividends. Capital gains have another big advantage over ordinary income: they're taxed at special rates. To qualify for these rates you must have long-term

capital gains.

Special rates for long-term capital gain

A capital gain or loss is long-term if you held the asset more than one year (at least a year and a day) before you sold it. At that point you're entitled to a special capital gain rate. In most cases the rate will be 20% (10% if the gain falls within the 15% bracket). There are exceptions for certain types of assets. The 20% (or 10%) rate should always produce some savings. If your tax bracket for ordinary income is 10% or 15%, the rate on this category of capital gain is 10%; if your ordinary tax bracket is 28% or higher, the rate on this category of capital gain is 20%.

Measuring capital gain

Your capital gain from a sale is measured by the difference between the amount realized in the sale and your basis in the asset you sold. Roughly speaking, the amount realized is what you received on the sale — usually measured by the sale price minus the brokerage commission. Your basis is based on your cost (usually the purchase price plus the brokerage commission) but may be adjusted as a result of various events. For example, if your stock splits while you own it, the basis splits, too.

Example: You buy 100 shares of XYZ at \$35,

paying \$3,500 plus a brokerage commission of \$40. Your basis is \$3,540. Later, you sell when the stock is at \$39. You receive \$3,900 minus a brokerage commission of \$40, so your amount realized is \$3,860. Your capital gain is \$3,860 minus \$3,540, which equals \$320. If your basis is greater than the amount realized, you have a capital loss.

What about capital losses?

Capital losses are used first to offset capital gains. If there are no capital gains, or if the capital losses are larger than the capital gains, you can deduct the capital loss against your other income — up to a limit of \$3,000 in one year. If your overall capital loss is more than \$3,000, the excess carries over to the next year. In other words, you treat the extra portion as if it were an additional capital loss in the following year.

Example: In 2003, Hardie had a \$4,000 capital gain, and a capital loss of \$11,400. He used \$4,000 of the capital loss to offset the capital gain: that left a net capital loss of \$7,400. He claimed \$3,000 of the loss on his 2003 return. The effect was to reduce his taxable income by \$3,000. Hardie was in the 31% bracket, so the loss decreased his 2003 income tax by \$930. The remaining \$4,400 of capital loss carried over to

his 2004 return. In 2004 he had a \$500 capital gain and no capital losses except for the carry-over. So, he used \$500 of the \$4,400 carryover to offset the gain, leaving a capital loss of \$3,900. Once again, Hardie deducts \$3,000 of the loss and carries over the remaining \$900 to 2005.

For more information

The I.R.S. provides free publications

Publication #523 - “Tax Information on Selling Your Home”

Publication #530 - “Tax Information for Owners of Homes, Condominiums and Cooperative Apartments”

Publication #544 - “Sales and Other Disposition of Assets” Publication #551 - “Basis of Assets”

To Place your Order, Phone Toll-Free (800) TAX FORM

THE IRS AND YOU

Sellers of real property will have certain information regarding the sale reported to the Internal Revenue Service. This required reporting is a consequence of the Tax Reform Act of 1986; it is intended to encourage taxpayer compliance and aid in audit and enforcement efforts by the I.R.S.

To help you better understand this subject, the California Land Title Association has answered some of the questions most commonly asked about Required Reporting to the I.R.S.

Q: Who is required to report to the I.R.S.?

A: Sellers of real property, under guidelines established by the I.R.S., are required to have their gross proceeds from the sale reported on a Form 1099S. When a settlement agent is used, the I.R.S. makes this agent responsible for the delivery of the information on the Form 1099S. The settlement agent generally will be the escrow agent or title company; however, it may be an attorney, real estate broker or other person providing settlement services.

Q: What is an I.R.S. form 1099S?

A: The Form 1099S is the reporting form adopted by the I.R.S. for submitting the information

required by law. The information will be transferred onto magnetic media by the settlement agent who will store the information and make the required report to the I.R.S. The settlement agent is also responsible for keeping a master copy of all transactions reported. In general, information required by the I.R.S. falls into the following categories:

- The name, address and taxpayer ID number (social security or tax identification #) of the seller(s).
- A general description of the property (in most cases and address).
- The closing date of the transaction.
- The gross proceeds of the transaction (even though gross proceeds do not correspond to taxable income).
- Any property involved as part of the transaction other than cash or cash equivalent.
- The name, address and taxpayer identification number of the settlement agent. Currently, transactions covered include sales and exchanges of 1-4 family residential units such as houses and condominiums. Also reportable is stock in cooperative housing corporations and

mobile homes without wheels. Specifically excluded from reporting are foreclosures and abandonment of real property and financing or refinancing of properties.

Q: What happens if the seller refuses to provide the taxpayer identification number for form 1009S?

A: Should the seller fail to provide the identification number and certify its correctness, the settlement agent may choose to:

- Delay the closing of the transaction until the information is furnished, or
- Complete the transaction and report to the I.R.S. that an attempt was made to obtain the information from the seller.

PROPOSITION 60

Proposition 60 allows qualified persons over the age of 55 to transfer the base year values from a former residence to a replacement residence under certain conditions.

For example: you can sell your \$400,000 Hollywood Hills home [assessed value \$80,000] and move to a new \$300,000 home in Redondo Beach; the new Redondo Beach assessed value will be \$80,000.

Props 60 and 90 apply if you “trade down” (i.e. the new home costs less than the sales price of the old home). In some cases you may buy for 10% more than the sales price of the old home.

If you buy the New Home first; then sell the Old Home, you must go down in price.

In the first 365 day period after the sale of your Old Home, you may go up 5% in the purchase price of New Home.

If you buy your New Home more than one year from the sale of your Old Home, but less than two years, you may go up 10%.

Proposition 90

Proposition 60 requires that both the old and new homes to be within the same county. Proposition

90, adopted in 1988, extends Proposition 60's benefits to homes in two counties, but only if the county of the replacement property has adopted a county ordinance permitting the local County Assessor to apply the value determined by the County Assessor of the original home.

Proposition 110

Proposition 110 was adopted on June 5, 1990 to extend Proposition 60 to severely disabled persons residing permanently in the property. Also, in existing homes qualified for a homeowner's exemption, certain construction, modifications, or installations intended to increase accessibility for an owner or an owner's severely and permanently disabled spouse, are excluded from reappraisal.

Please talk to your tax advisor or accountant for more information.

SUPPLEMENTAL TAXES

Many home buyers are surprised when they receive a supplemental tax bill shortly after the close of their real estate transaction. This onetime bill allows the county tax assessor to re-calibrate the tax roles based on the newly assessed value of a recently purchased property.

Supplemental property tax defined

The supplemental property tax is a one-time tax, which dates from the time you take ownership of your property or complete construction, and is calculated until the end of the tax year (June 30th).

How is the supplemental tax bill determined?

The supplemental property tax is based on the difference in the assessed value of a home when it was purchased by the prior owner and the newly assessed value when purchased by the new owner.

The total supplemental assessment will be prorated, based on the total number of months remaining until the end of the tax year.

Will my supplemental taxes be prorated in escrow?

Rarely! Because supplemental tax is a one-time tax and is in effect from the actual date ownership changed hands. Supplemental taxes are collected by the county tax collector/county controller.

When are the supplemental bills due?

Supplemental tax bills are calculated between 3 weeks and 6 months after the close of escrow. The realtors, lenders and escrow officers have no control over the supplemental tax bill.

Can supplemental taxes be paid in installments?

All supplemental taxes are payable in two equal installments. The taxes are due on the date the bill is mailed.

PROPERTY TAX BASICS

The County Assessor determines the assessed value of the property. This amount is generally the cash or market value at the time of purchase.

This value increases not more than 2% per year until the property is sold or new construction is completed.

The tax assessor applies the appropriate tax rates, which includes the general tax/tax levy, locally voted special taxes, and any city or district assessments.

New homeowners

Although escrow prorates taxes and gives appropriate credit between buyer and seller, the actual taxes may not have been paid and the seller is still responsible for any unpaid taxes at the close of escrow.

Property taxes are collected in two equal installments. The first installment, representing July 1st through December 31st is due on November 1st and delinquent on December 10th. The second installment, representing January 1st through June 30th, is due on February 1st and delinquent on April 10th. Payments must be received (not postmarked) by 5:00 p.m. on the delinquent date or will be assessed a 10% penalty. The penalties

increase substantially if not paid by June 30th of that tax year.

April 15

Last day to file for 100% Veterans or Homeowner's Exemption (Senior Citizens and Disabled filing period May 15 to August 31) You must own and occupy the property on January 1 to be eligible for applicable exemptions.

July 1

Current Fiscal tax year begins.

November 1

First installment due, covering the period from July 1 to December 31.

December 1

Last day to file for 80% of applicable exemptions

December 10

First installment becomes delinquent at 5 p.m.. 10% penalty added to taxes due.

February 1

Second installment due, covers the tax period from January 1 to June 30

April 10

Second installment becomes delinquent at 5 p.m.

June 30

If you fail to pay either or both installments by 5 p.m., property taxes become in default.



TRANSFER AND PROPERTY TAXES

Transfer taxes are paid when a property is passed from one owner to the next.

Whether the buyer, seller or both parties pay the county and/or city transfer taxes is part of the negotiation process. However, each city has its own customary approach. For example, in Redondo Beach, the seller pays county transfer tax and the buyer and seller split the city transfer tax. This customary approach is not mandatory and every buyer and seller will need to consider how they plan to address these taxes.

Note: see the table below for example of local city taxes. These numbers are per \$1,000 of purchase price.

The property tax rate in Los Angeles' South Bay is approximately 1.1%.

The tax rate throughout California is 1%. But, cities add their own items to the tax bill such as special assessments and bonds. For Manhattan Beach, the average tax rate is approximately 1.1%. However, when talking to our clients, we'll often round the number up to 1.25% so that we don't have any surprises once we're in escrow—it's always better to get money back rather than having to come up with more cash than you anticipated.

For more information on property taxes, check out California tax Data.com

<u>County Name</u>	<u>County Tax</u>	<u>City Name</u>	<u>City Tax</u>	<u>Total</u>
Los Angeles	\$1.10	Culver City	\$4.50	\$5.60
Los Angeles	\$1.10	Los Angeles	\$4.50	\$5.60
Los Angeles	\$1.10	Pomona	\$2.20	\$3.30
Los Angeles	\$1.10	Redondo Beach	\$2.20	\$3.30
Los Angeles	\$1.10	Santa Monica	\$3.00	\$4.10

TAX SAVINGS, 1031 EXCHANGE

A 1031 tax deferred exchange allows you to roll-over all of the proceeds received from the sale of an investment property into the purchase of one or more other like-kind investment properties.

At closing, proceeds are transferred to a third party, who is called a facilitator or qualified intermediary, who holds the funds until they are used to acquire a new property.

A 1031 exchange is often referred to as a Starker exchange.

Exchanges Allow You to Delay Capital Gains Taxes

Capital gains taxes are deferred, if all of the exchange funds are used to purchase like-kind investment property.

The deferment is like getting an interest-free loan on the tax dollars you would have owed for a cash sale. More equity is retained, and that helps you move into properties of higher value each time you perform a 1031 exchange.

What's eligible?

A 1031 exchange is possible when you sell real estate held for investment purposes.

It cannot be used for the sale of your personal residence.

Like kind properties

Exchanged properties must be like kind. For a real estate exchange this means real-property for real-property, but not necessarily land for land or a rental house for another rental house. Take a look at the IRS rules for specific information about what types of properties qualify as like kind.

You can exchange a single property for multiple properties, or purchase one property from the proceeds of several. Proceeds not used to purchase new investment property are taxed as a cash sale.

“In a like-kind exchange, both the property you give up and the property you receive must be held by you for investment or for productive use in your trade or business.” -IRS

WITHHOLDING ON REAL ESTATE

California requires that all real property buyers withhold 3.5% of the sales price of a real property transaction.

Cal-FIRPTA no longer just relates to withholding of real estate proceeds of foreign, non-resident aliens as it has been amended to include three new classes of sellers:

- 1) Individuals; 2) Persons (but not partnerships, or an individual or a corporation; 3) Corporations

There are specific exemptions and it is important for relocation companies to note that the withholding percentage is required unless one of the following is applicable:

- The property sales price is less than \$100,000.
- The property is the principal residence of an individual transferor based on a written certification signed under penalty of perjury.
- The property is transferred to a corporate beneficiary by a foreclosure or a deed in lieu.
- The property transferred by an individual and will be replaced in a like kind exchange, based on a written certification by the transferor or signed under penalty of perjury.
- The property is transferred by an individual as

an involuntary conversion and the transferor certifies an intent to acquire replacement property eligible for deferral under Section 1033 of the IRS Code.

- The transferor is an individual who certifies under penalty of perjury that the transaction will result in a loss for California income tax purposes.
- The transferor is a corporation, unless immediately after the transfer the corporation has no permanent place of business in California. A corporation has no permanent place of business if all of the following apply:
 - a) It is not organized and existing under the laws of California.
 - b) It does not qualify with the office of the Secretary of State to transact business in California.
 - c) It does not maintain and staff a permanent office in California. In the single deed process, almost 100 percent of the dispositions of California real estate will occur under exemption number two above and, therefore, only the written certification will need to be executed by the seller and submitted to the escrow agent in accordance with the law.

COOL TAX DEDUCTIONS

Deduct the points

If you bought a home last year, you may deduct many of the costs associated with your home loan or acquisition mortgage. Did your lender quote an interest rate plus points for the loan? A point equals one percent of the loan amount. Check your escrow closing statement for the amount of the loan fee or points, that amount qualifies as an itemized deduction.

If you obtained a home improvement loan last year, the points are also deductible. With either a purchase or home improvement loan, you may have been charged a prorated interest amount for the month you closed escrow. Check your closing statement for this deduction.

If you simply refinanced the loan on your home or borrowed against other real property to take cash out or secure a lower interest rate, the points or loan fees must be deducted annually over the life of the loan.

If you refinanced last year and forgot to deduct the points, prorated interest, or loan fees, you can take the deductions on this year's return.

Property tax

If you bought property last year, escrow would prorate the portion of the property tax paid by the seller. Your closing statement may reflect a

property tax charge (deduction) from the date you took title to the property. The seller would have received a corresponding credit. However, if you agreed to pay the property tax owed by the seller you could not claim that amount as a deduction but you could add it to your basis. Supplemental property tax payments are deductible for the tax year in which they are paid.

Prepayment penalty

If you paid off an existing real property loan last year and were charged a prepayment penalty, that amount is tax deductible. Remember to deduct the interest amount if you prepaid your January home loan payment at the end of the previous year. If you assumed an existing loan, you may deduct any prorated interest is also deductible for a primary residence that will be completed and occupied within two years.

Divorced or separated spouses

As a general rule, no gain or loss is recognized on inter-spousal title transfer during marriage or divorce. However, an exception is made in cases where the spouses agree to delay the sale of their primary residence. For the welfare of the children, a divorce decree may allow one spouse to reside in the home until some time in the future when the property will be sold and the proceeds divided equally. If the resident spouse qualifies

for the \$250,000 home sale exemption, the non-resident spouse also qualifies for the \$250,000 home sale exemption.

Surviving spouse

The widow may claim the \$500,000 exemption if the home is sold during the year the spouse died. If the surviving spouse inherits the deceased spouse's half of the residence, the adjusted cost basis on the half is usually "stepped up" to market value on the date of the surviving spouse's taxable gain upon sale. In California as a community property state, the surviving spouse can usually claim a new stepped-up basis on the home's entire market value, thus resulting in little or no taxable sale profit.

House partners

Unmarried co-owners who sell their primary residence after two years may each claim the \$250,000 exemption. Up to four co-owners can qualify and individually claim the exemption for a million dollars tax-free.

Did you change your job and relocate?

A homeowner or renter can deduct almost all of their moving costs if your new job location is at least 50 miles further from your old home than your previous job. The second requirement is that you work at least 39 weeks in the vicinity

of your new job location, 78 weeks for self-employed persons. You do not need to itemize deductions to take advantage of the moving cost tax adjustment if your situation qualifies. The distance from your new job is not a consideration.

Capital Gains, are you eligible to save?

\$500,000 gain is allowed for married couples and \$250,000 gain is allowed for single persons.

The basic rule says that you need to have lived in the property for at least 2 out of the last 5 years (as your primary residence.) I

If you've been in the property for less than two years, talk to your tax advisor regarding your particular situation.

Fair market value

Fair market value is the price that a property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither having to buy or sell, and both having reasonable knowledge of the relevant facts.

CONCIERGE SERVICES

One of our value added services is access to our growing database of South Bay resources, contacts, painters, contractors, and just about anything you'll ever need related to your home and life at the beach:

Painters

Alfredo Gonzales
310.493.6025

William Lacayo
310.717.2733

Manual
310.702.0685

Stone, tile, marble repair

Bluestone
Sergio Castañeda
818.212.7417

Steve Preiss
310.658.8173

Grout Miracles
Steve Young
310.561.9850

Electricians

Barden Electric
310.316.1409

Midnight Electric
Jose Cabrera
310.387.9303

Plumbers

Lalo
310.567.7622

DDS
Jon Corken
310.372.5372

Movers and related services

Jeff, Home Sweet Home. Packing service
310.809.7368

Redondo Beach Van and Storage
Gerry Krug
310.376.7919

Kate Brown, personal organizer
323.919.7151

Locksmith

Eric Watson, the lock doctor
310.901.6004

Carpeting and floors

Wilson Floor Company
Travis Wilson
310.545.7750

Brian's Hardwood Floors
310.318.1191

Carpet Pros
310.214.0818

Trash and junk removal

Got Junk
800.got.junk

Power wash & window cleaning

Jeff Norling
310.796.0320

Roof repair

Avalon Roofing, Inc.
310.515.9423

Woodwork

Classic Wood Creations
Martin
310.415.0535

Rags to Rich's
Rich Griffiths
310.547.1304

Landscape design

Jones and Potik
310.753.9385

Fireplace repair, parts, service

O'Kells, Hermosa Beach
310.376.3448

Home theater installers

Marco Luque, South Bay AV
310.469.2164

Home Theater Doctor
Robert Snyder
310.3728932

Carpet cleaning

Zero Residue
866.937.6739

Morris Carpet Cleaning
George Morris
310.545.8750

Handy Men

South Bay Handyman
Steve Drazovich
310.721.8551.

Handy Andy
310.529.3800

REAL ESTATE VOCABULARY

Abatement - The termination of an offensive activity, as the abatement of a nuisance.

Abstract of title - A condensed compilation of the history of the title to a piece of property; starts with the original grant and contains all subsequent conveyances, liens, or other encumbrances.

Abut - To be next to or touch another property or body of water.

Acceleration Clause - A provision in a note, such that if payments are in default, the owner of the note can declare the entire balance due and payable earlier than the stated due date.

Acceptance - An act by which a grantor receives a deed with the intention of retaining it in order to vest himself with title to the real estate; an express or implied indication of willingness to be bound to the terms of an offer to contract.

Access - The right of a property owner to have a means of entry and exit from his property to a public street.

Accretion - Addition to land by deposit of soil or sand as a result of natural action by stream, lake, river, or sea.

Accrued Depreciation - The actual deprecia-

tion in a property that has already accrued as of a given date; past depreciation.

Acknowledgment - The process whereby a person goes before a notary public or other recognized officer and executes a legal document and at the same time declares that he is executing the document as a free and voluntary act.

Acre - measure of land equal to 43,560 sq. ft.

Action - A court process to enforce a right.

Actual age - The number of years a building has been in existence; chronological age.

Administrator - A person appointed by a probate court to handle the estate of a deceased person who left no will.

Ad valorem - According to value.

Ad valorem tax - A real property tax based on the value of the property.

Adverse possession - The continuous, visible, hostile use or occupation of the property of another. Title may be acquired by adverse possession for a period prescribed by law.

After Acquired Title - A doctrine under which a prior grantee automatically obtains title to real estate acquired by a grantor who previously at-

tempted to convey title which he did not in fact own.

Agency - The relationship between a principal and agent whereby the agent represents the principal in dealing with third parties.

Agent - A person who has authority to act for another.

Air rights - A landowner's right to the use and enjoyment of the space above his land to the extent that he can effectively enjoy it.

Alienate - To convey or transfer title to property.

ALTA - American Land Title Association.

ALTA title insurance policy - A broad form of title insurance policy, which includes unusual risks such as factors, which could be disclosed by inspection of the land or by a survey.

Amenities - Those qualities which are pleasing and agreeable; intangible benefits of property ownership such as pride of ownership or scenic beauty.

Common elements - Those areas within a condominium which each owner of a condominium unit has the right to use in common with each other.

Common Law - The body of law based on custom and usage, some derived from English law.

Community property - Property owned half by each married partner, if acquired during the marriage period with joint funds or efforts; exists in only a few states.

Concurrent ownership - Ownership where two or more persons possess simultaneous estates in the same property.

Condemnation - The process whereby the government or a quasi-government ownership takes title to private property for public use in exchange for just compensation under the power of eminent domain.

Conditional - Depends upon the occurrence of certain terms or events.

Condominium - A unit in an apartment or multifamily structure, which is owned by an individual in the same way an individual, can own other real property.

Conservator - A person appointed by a court to take legal charge of the person and property of a person incapable of managing his affairs.

Consideration - Anything of value, whether tangible or not, given by one party in a contractual

agreement.

Constructive notice - Other than actual notice-notice given to the public through the process of recording documents in the public records office; notice imputed to a buyer by persons in possession of property.

Consummate Dower - After the death of a husband, the dower interest which the wife had in her husband's estate.

Contiguous - Next to and in actual contact.

Contingent - Dependent upon a future event which is uncertain.

Contingent remainder - An estate in land, the possession and enjoyment of which is delayed until the termination of a preceding estate and the occurrence of a condition. Contour Surface shape of land.

Contract - A legally enforceable agreement.

Contract for deed - See Installment land contract.

Contract rent - The rent stipulated in a lease agreement or contract.

Conventional mortgage - A mortgage other than one guaranteed by FHA or VA.

Conveyance - The transfer of title to real estate from one party to another by written instrument.

Cooperative - An apartment or multifamily building owned by several persons through a corporation, such that each owner is a stockholder and also leases a portion of the building.

Co-owners - Two or more persons who possess simultaneous estates in the same property.

Corporation - An artificial entity created by and under the authority of a state or other government for private or public purposes.

Cost approach - A property appraisal process in which the appraiser estimates building value as replacement cost minus depreciation.

Cul de sac - A circular turn-around street in a property development.

CPM - Certified Property Manager.

Courtesy - The right which a husband by law in his deceased wife's estate; applicable in only a few states.

Damages - The amount recoverable by a person who has suffered an injury, either in person or property, due to the wrong of another.

Datum - A plan of elevation from which heights

and depths are measured.

Debtor - The owner of a property in a security agreement; sometimes called mortgager.

Declaration of restrictions - An instrument other than a deed containing restrictive covenants which is incorporated by reference and made part of a deed.

Decree - A court order as a result of a judicial proceeding.

Dedication - A voluntary giving of property by the owner for use by authorized public officials on behalf of the public.

Deed - A written instrument by which title to real property is conveyed from one person to another.

Default - The failure to fulfill a contractual obligation.

Defeasance Clause - The clause in a mortgage note that allows the mortgager to redeem his property after all payments due the mortgagee are paid.

Deficiency Judgment - A judgment rendered after default when the security pledged for a loan does not satisfy the debt.

Exception - A right or portion of property reserved in the grantor in a conveyance by deed.

Exclusive agency listing - A listing agreement between a seller and a broker where either has a right to sell the property; if sold by the broker, a commission will be due.

Exclusive right to sell - A listing agreement between a seller and a broker whereby the broker receives a commission, whoever sells the property.

Execute - To sign and deliver an instrument, such as a deed.

Executor - A person specified in a will to carry out the provisions of the will.

Express Contract - A contract whose elements are stated orally or in writing.

Fee on a condition subsequent - A fee simple which is conveyed reserving to the grantor the right of entry upon occurrence of a condition subsequent.

Fee simple - The highest interest a person may have in real property.

Fee simple Determinable - (Qualified fee) Fee simple subject to a condition or limitation, the occurrence of which causes title to revert back to

its grantor or his heirs automatically.

FHA - Federal Housing Administration; a federal agency which insures home mortgages.

Fiduciary - A relationship of trust and confidence as between a principal and agent.

Financing statement - An instrument filed with the recorder or register of deeds indicating that personal property is encumbered.

Fixture - An item that was originally personal property but is so attached to the property that it becomes part of the real estate.

Flashing - Sheet metal or other material used around chimneys or other places to prevent water seepage.

Footing - The base on which a home foundation stands.

Foreclosure - A legal proceeding by a lien claimant to force sale of a property to pay the amount due the lien claimant.

Forfeiture - The loss of money or right due to default or failure to perform in accord with a contract.

Foundation - The portion of a structure which supports the first floor and construction above it.

Fraud - Successful deception with the intent of deceiving another person.

Freehold Estate - An estate existing for an indefinite length of time; an estate of inheritance for life.

Frontage - Property on a street, highway, or lake.

Front foot - A measure of property value where the distance is measured along the street, highway, stream, or other body of water.

Functional Obsolescence - Things internal to a structure that detract from a building value.

General lien - A lien effective against all of a person's property, both real and personal.

Grade - The level of the ground at the structure foundation.

Graduated lease - A lease providing for a variable rate of rent depending upon some future event.

Grantor - A person who transfers property, such as a seller.

Gross lease - A lease agreement whereby the property owner pays taxes, insurance, repairs, and other costs.

Ground lease - An agreement for rental of land

only.

Ground rent - The portion of property income attributed to the ground value itself; used in a few states whereby a person can own a structure and rent the ground.

Guardian - A person granted power by a court to take care of and manage the property of another person who has been declared legally incapable of administering his own affairs.

Habendum - A provision in a deed, which defines the extent of the ownership to be granted to and enjoyed by the grantee.

Heirs - The persons designated by statute to receive an estate where there is no will.

Hereditaments - Any property which can be inherited.

Highest and best use - The use of a property, which will yield the greatest return on the property.

Homestead - Any real estate where the owner resides and which is exempt from creditor's claims to an amount specified by state law.

Insurability - Ability to obtain insurance on a property as it appears to an underwriter of an insurance company

HUD - Federal Department of Housing and Urban Development.

Hypothecate - To give something as security without giving up its possession.

MAI - A member of the American Institute of Appraisers qualified to specified requirements.

Marginal land - Land in use which barely pays the cost of working it.

Market approach - The process of property appraisal by comparing it to sales of equivalent properties.

Market value - The highest price which property would be expected to bring in the open market under normal conditions.

Meandered - Area such as a lake on which taxes are not paid.

Meander line - The approximate border of a natural body of water.

Mechanic's lien - A lien which can be filed by mechanics or material men who supply labor or materials for property improvement to secure payment.

Meridian - Map lines running north and south to locate land under the governmental survey

system.

Metes and bounds - A method of legal description by use of measurements, boundaries and directions.

Mineral rights - A legal interest in minerals in land, which includes the right to take minerals from land.

Minor - A person not of legal age.

Modernization - Replacement of outmoded fixture, equipment, and other features of an improvement with modern features.

Monument - A fixed object, either natural or artificial, which surveyors use to measure.

Mortgage - A written instrument in which real estate is used as security for repayment of a debt or obligation.

Mortgagee - The party who lends money for a mortgage.

Mortgager - The party who borrows money with his property as security.

Multiple Listing - A listing agreement whereby other brokers in an organization are allowed to sell a listed property.

NAR - National Association of Realtors (former-

ly NAREB, National Association of Real Estate Boards.)

Navigable water - A waterway capable of passage by watercraft; navigable if so designated on a U.S. Map.

Net lease - A lease agreement in which the tenant pays rent plus all taxes, insurance, repairs, and other costs.

Net listing - A listing agreement whereby the owner receives a set amount and the broker receives all above that amount.

Nominal consideration - Consideration having no relationship to the actual value of the contract or property conveyed.

Nonfreehold estate - An estate in land of a certain duration, i.e., leasehold estate.

Note - A written instrument promising payment.

Notice to quit - Notice given to a tenant to vacate a rented property.

Nuisance - Anything that is offensive to a person or property.

Obsolescence - Loss in value due to obsolete or out-of-date design or construction.

Open-end mortgage - A mortgage agreement

such that the mortgager can borrow additional funds in the future without rewriting the mortgage.

Open listing - A listing agreement whereby either the owner or the broker can sell the property; if the broker is the procuring cause, a commission is due.

Option - A contractual right given for a consideration permitting a person to lease or buy the property at a specified price within a given period.

Optionee - A person who holds an option.

Optionor - A person who gives an option to another person.

Ordinance - A law passed by the legislative body by a municipal corporation.

Overhang - The portion of a roof extending beyond the walls.

Partition - An action seeking to have property owned by two or more persons sold and the proceeds divided between the parties; or to have the property divided into two or more portions.

Partnership - An association of two or more persons to carry on a business for profit as co-owners.

Party wall - A wall erected on the line between two adjacent properties for the use of both parties.

Replacement cost - The cost incurred in replacing one property with another of similar utility using modernized equipment, materials, and techniques.

Reproduction cost - The cost of reproducing an exact replica property based on current prices.

Rescind - To declare a contract void in its inception and put an end to it as though it never existed.

Reservation - A right kept by a grantor when conveying property.

Restriction - An encumbrance created by deed or special agreement which limits use of the property.

Reversion - The portion of an estate remaining with the original grantor after the termination of a leasehold or life estate.

Right of redemption - A person's right by law to buy back property taken by forced sale for a period of time stated by law.

Right of way - The right to cross over or under another person's property for ingress, egress, util-

ity lines, sewers, etc.

Riparian rights - Rights of an owner of property abutting water to use the water and have uninterrupted flow and drainage.

Rod - A measure of length equal to 16½ ft.

Rural - Pertaining to the country; rather than urban.

Satisfaction - Discharge of lien upon payment of debt.

Seal - An impression made to attest to the execution of a written instrument; also the word "seal" typed in to form a sealed document.

Section - A unit of land measure one-mile square containing 640 acres.

Security Deposit - Earnest money.

Seize - The possession of land under a claim of freehold estate.

Septic Tank - An underground tank used where city sewage is not available.

Servient estate - An estate burdened by an easement.

Setback - A distance from the curb to the building, often specified by ordinance.

Settlement - The process of completing the sale of real property; same as closing.

Severalty - Sole ownership; by one person.

Sheriff's deed - A deed given as a result of a court order to sell property in satisfaction of a judgment.

Signature - The act of putting down a person's name, mark, or symbol with the intent that it attest the validity of a written instrument.

Site - A plot of ground upon which anything is, has been, or will be located.

Situs - Location.

Special assessment - An assessment against real estate to pay for improvements such as sidewalks, curbs, streetlights, or other things which benefit certain property owners.

Special warranty deed - A form of deed whereby the grantor warrants the title only against claims generated while the grantor owned the property.

Specification - A document describing requirements for a house, subdivision, or other project.

Specific performance - A legal action to compel the performance of the terms of an agreement, such as the sale of a home.

Specific Lien - A lien which affects only a single parcel of property.

SRA - Designates a member of the Society of Real Estate Appraisers.

Statute - State or federal law.

Statute of frauds - The state law which requires that certain contracts, including those for the sale of real property must be in writing.

Strict foreclosure - A court decree vesting title to mortgaged property in the mortgagee upon the default of the mortgagor without any sale of the property.

Stud - Vertical timbers in a house wall.

Subdivision - A tract of land divided into lots suitable for residential purposes.

Subject to - The purchase of real property subject to a mortgage, whereby the original holder remains personally liable for the mortgage.

Sublease - A lease given to another by a lessee.

Subordinate - To make a mortgage subservient to another mortgage.

Subsequent purchaser for value - A purchaser for value in good faith and without notice of any adverse interest in the property purchased.

Suburb - The area close and adjacent to a city or town.

Survey - The process of measuring land; the resulting map of the property.

Syndicate - A group of persons joining together to deal in real property.

Tangible - Existing physically; that which can be touched.

MOVING CHECKLIST

Before you move there are several items you must mark as being completed on your checklist. Your checklist should include:

Change your address with:

- Family and friends
- Work
- Post office
- Banks and financial institutions

Change your address online: www.usps.com

Get insurance:

- Move your car and home insurance to the new address
- Arrange for coverage at the new home
- Arrange to cancel coverage at the old address

Schedule/cancel utilities with:

Be sure to arrange for new services and cancel old services alike:

- Gas
- Power
- Water
- Telephone
- Garbage

- Cable/satellite
- Internet

Need help with the move?

We work with and recommend **Redondo Van and Storage.**

Call Gerry Krug at: 310.376.7919

Need help packing?

We recommend **Home Sweet Home.**

Call Jeff at 310.809.7368

www.unpackme.com

NOTES:



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