



Real Returns

By Will Woodard, CFP®

Today's topic: Adding investment value to the process of buying and owning Outer Banks real estate

The Outer Banks is a seductive place on a lot of different levels. The smell of the beach air, fragile topography, dynamic weather, and incredible scenery combine to emotionally "hook" folks each season. It happens to nearly everyone-cynical old-timer and unsuspecting new visitor alike, and for good reason: Throw in a pleasant streak of weather and this is quite simply one of the most beautiful places on Earth.

The Outer Banks has been beautiful for a lot of real estate investors, too. Property values have skyrocketed for a wide range of resort properties in Dare, Hyde, and Currituck counties since the year 2000. However, the second half of 2005 and the first few months of 2006 have seen a pause in the relentless upward price spiral. Who knows, maybe buyers are in the process of reclaiming bargaining power that sellers have had a lock on the past few years.

Whether you're a serious investor or simply a daydreaming guest starting to look around, though, there are ways to add value to the investment component of the home-buying process. Here are some ideas for making the most of your Outer Banks real estate investment capital:

- Be comfortable that you are buying THE BEST property in your price range and desired neighborhood. Not every house or piece of land proves to be a winning investment. Take the time to see what's out there in your target market, and buy the best of the available options--something you can live with and enjoy over your desired holding period that will outperform competitive properties in maintaining (and hopefully gaining) value.
- Recognize that your real estate investment may not be as liquid as you would like. Seems hard to believe after the last few heady years, but liquidity risk-that is, the ability to convert your investment to cash-may be a real issue. There may not be a buyer ready, willing, and able to pay your asking price when you're ready to sell. Property owners can borrow against their homes easily, but HAVING to sell to raise cash at an inopportune time can create a financial nightmare. Consider this before diving in.
- Give some thought to the income side of the equation. Many buyers of rental/investment property fall victim to the trap of believing robust rental projections extrapolated by a gung-ho listing agent or seller. Go slowly here buyer,

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and don't necessarily believe everything you read. There are a lot of new houses coming into rental management programs each season, and, frankly speaking, the projections that are on paper in front of you may never make it to your house's bottom line. Simply put, if the cash flows look too good to be true, they probably are. This is another reason to own an exemplary property, as it will get more repeat rental business (guests love to remove uncertainty from the rental process), be more a favorite of a value hungry public or "in the know" rental reservations staff, etc., etc.

- Work with an agent who will consider your best interests in a proposed transaction. The process of buying a piece of property is exciting, challenging, and nerve-wracking all at the same time, a whirlwind of emotion and anxiety. There are a lot of moving parts in the equation. To come out ahead you must be lucky, catch a "rising tide lifts all boats" market, or buy really well.

If the property that you're considering is listed for sale by a real estate agent, the listing agent represents the seller's best interests in the transaction. You need a professional who will represent YOUR interests. Look for a professional who knows the ins and outs of the area that you are considering and who will do his or her best to keep you out of the many possible pitfalls that pop up seemingly out of nowhere. Consider interviewing several agents. Look for an agent that you can trust for guidance, wisdom, and straight talk-not simply as a cheerleader.

- Use market uncertainty to your advantage. This is where your agent can really help, as the process of negotiating to closing the property best resembles an awkward and slightly uneasy dance, with both parties simultaneously trying to keep an eye over the other's party's shoulder as well as their own.

If you are a buyer looking seriously at a recently listed property that is a good fit for you, let the seller know it by your actions-make sure your first offer gets the seller's attention and puts the seller on notice that you are serious about the property. Remember that well-priced standout properties are always in high demand and that's no different in 2006 than in the last few years. You may have to make a quick move!

If, on the other hand you are looking at a property that has been on the market for a longer period of time, you may be able to ask for price or closing cost reimbursement concessions from the seller. With more properties on the market and national media outlets trumpeting housing bubble fears, a seller may be happy to entertain your well-thought-out and thoughtful reduced offer.

Happy hunting and good investing,

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