

Real estate topics: Second homes, land flipping and the 'value bubble'

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Copley News Service

Here are some latest takes on hot real estate topics:

One rapidly growing real estate niche industry is the sale of **vacation homes as second homes**. Because spring is when buyers are most inclined to shop for these properties, now is a good time to look at this market.

In 2004, 23 percent of all homes purchased were second homes and were acquired as investments. Another 13 percent were purchased strictly as vacation homes, reports the National Association of Realtors.

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There were 2.82 million second homes sold in 2004, an increase of 16.3 percent over the previous year. Combining second-home investments and vacation-home purchases last year, this segment accounts for more than one-third of all residential property sales.

The NAR report said typical vacation-home buyers earned \$71,000 in 2004. Buyers of second homes who were particularly interested in investment potential earned an average of \$85,700. Generally, most second-home buyers are middle-class.

"Real estate has always been a solid, safe and tangible investment," said Christine Karpinski, author of the new book *How to Rent Vacation Properties* (Kinney Pollack Press; \$26). "First, it usually appreciates in value, and there's a sense of control that doesn't exist with other investments like the stock market."

When you own real estate, you can feel confident that someone else's unethical decision won't cause you to

lose everything," Karpinski said. "And of course, the rental factor means you can actually earn income from your investment."

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Land flipping can be a lucrative and legitimate form of real estate investing. But recently a growing number of these transactions have involved unethical or illegal practices.

A land flip is when an investor has inside information that might result in a rapid rise in the value of a parcel of land. This might be information about a new mall or sports facility that is proposed at an adjacent or nearby location. The investor quickly, and quietly,

acquires title to the land, then places it on the market for a much higher price. He "flips" it to a new owner for a fast profit.

A serious problem arises when investors become too cozy with an appraiser. After convincing the appraiser about the potential value of the property, and showing a few exceptionally high-priced sales in the area for comparable properties, the appraiser values the property at a grossly inflated figure.

This appraisal can then be used to market the property at artificially high prices, or to acquire large mortgage loan on the property. In either case, new buyers or lenders will encounter super-high risk from such transactions.

Nearly half of mortgage fraud cases being investigated by the government involve land flips, according to the FBI. It's a national trend and a huge problem for the United States, especially in light of the real estate and mortgage industry's roles in propping up

the economy over the past few years.

In many states, new laws and regulations are being considered to control such abuses.

"Cases like these underscore the importance of appraiser licensing and regulation," said Jerry Jolly, acting director of the California Office of Real Estate Appraisers.

"As real estate values continue to soar, so does the potential for profit in real estate schemes. Clearly, we see that financial institutions remain at risk today. That's one of the reasons why we are now taking cases like these very seriously," he said.

Home prices are still rising, but the feared **"value bubble"** is not bursting.

However, the rate of value appreciation (increases) is simmering down to a more realistic pace. That trend will continue at least through 2005, most analysts agree.

"House-price growth strengthened last year in

light of low interest rates and an expanding economy," said Frank Nothaft, chief economist at Freddie Mac, one of the nation's largest buyers of existing home mortgages and supplier of funds for future loans.

"During 2003 and 2004, homeowners enjoyed two years in which 30-year fixed-rate mortgages averaged just 5.8 percent, the lowest rate in more than 40 years. Economic growth hit 3.9 percent last year and payroll employment increased by 2.2 million jobs," Nothaft said.

He added, "An improved labor market and gains in family income contributed to a record level of home sales and single-family construction, as well as an exceptional pace of home value appreciation."

He noted that home prices in Pacific Coast markets led the nation in annual house price increases. This particularly applies to areas where populations are growing and there is little available land for building new homes.

A look at recycling from the receiving end

BY JANET LIVELY
Special to the Record-Eagle

Like a ravenous metal dinosaur, a blue shredding machine the size of a small Dumpster devours the contents of file box after file box, cast into its maw by a slow-moving conveyor belt.

Two employees of GT Profile in Traverse City sort through the files by hand, removing colored paper, photos and other shiny stock before feeding the machine a steady stream of office paper, which it chews up and spits out onto another conveyor belt headed to a baler.

When full, the second machine will expel a wire-bound cube of shredded paper weighing more than 1,500 pounds. GT Profile fills two tractor trailers a month with these bales, shipping them to mills for processing into tissue or more office paper.

"It's gone as far away as Mexico and Quebec," said company owner Jim Kirby. "We sell it all through paper brokers. They know who to sell it to, and we expect them to get the best price."

The shredding and baling operation occupies only a corner of the GT Profile building on Cass Road, but it has potential to boost recycling in Grand Traverse County, which has one of the lowest recycling rates in the state, said Randy Smith, former resource recovery manager for the county.

Expansion at the company is providing new recycling services to businesses — and eventually to county residents — that are local, low-cost and profit-driven,

Kirby says.

Although a David-sized recycler compared to Waste Management or Shoreline Waste Services, GT Profile can make money because it collects, sorts, bales and sells waste paper on site, Kirby says. The Goliaths haul their waste paper to their own facilities in Saginaw, Grand Rapids or Manistee for processing, an expensive trip even with paper prices at historic highs.

Right now GT Profile handles only a fraction of the waste paper generated in the county and most of it comes from its records management customers, who pay the company to collect and shred confidential and expired documents.

Document destruction had been a steadily growing service until federal privacy laws required health care businesses to provide "secure disposal" of patient information.

Shredding volume quadrupled in two years, jumping from 10 to 15 tons a month to more than 40 tons a month now, and it continues to increase as businesses comply with new laws protecting consumer credit information, Kirby said.

Last summer, after consultation with Smith, the company explored plans to make paper recycling a business in its own right. Tours of private operations downstate and positive trends in the market convinced Kirby and sales manager P.V. Archer that they can turn scrap paper into dollars. Although volatile like any commodity, waste paper prices are supported

by strong demand from Pacific Rim paper mills, a shrinking and more expensive supply of pulp trees, and improved technologies for manufacturing recycled paper.

Add these factors to the public's desire for conservation and "it's all coming together," Archer said.

To make it come together for GT Profile, however, the company is expanding carefully, looking first for the "cleanest" possible sources of waste paper, such as local print shops, because the less sorting required, the higher the return. A bale of high-grade office paper brings about \$115 a ton compared to \$60 a ton for mixed paper, but the cost of sorting — and human

hands still do it most efficiently — can lower that margin quickly, Archer said.

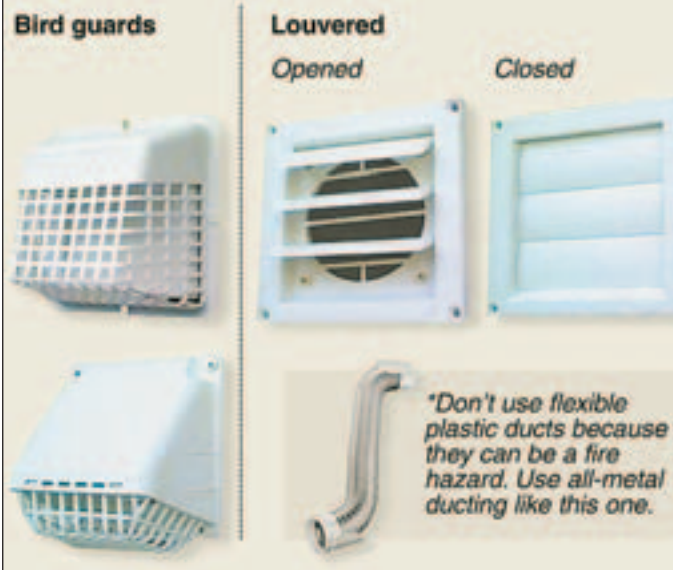
Eventually, Profile may accept all types of paper. It is considering plans to build an 18,000-square-foot recycling center on at its Cass Road site, Kirby said. The private, non-subsidized operation would be big enough to accept waste paper from small, independent trash haulers, who now have only one place to take it in the county: Waste Management's recycling collection station farther south on Cass Road.

If and when GT Profile builds a dedicated recycling center "then we're off to the races," Smith said.

A flap over a vent

To prevent cold air and other unwanted guests from entering through the dryer vent, install a cover or flap where the duct* opens outside the building. The flap should be open when the airflow for the dryer is on and close up when the dryer shuts off.

EXAMPLES OF DRYER DUCT COVERS AND FLAPS



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