



Bill Gorman helps investors become financially independent by showing them how to recognize decision making opportunities.

**BILL GORMAN'S**

**ORANGE COUNTY HEADS UP!**

W.R. Gorman & Associates | P.O. Box 325, Brea, CA 92822 | (714) 255-9998 | [wrgorman.com](http://wrgorman.com) | Winter, 2003

# SELL NOW vs. SELL LATER

*Prudent investors should evaluate options in this phase of the Real Estate Cycle*

**WE ARE NEAR THE TOP.** Low interest rates, a poor stock market performance, a lack of return on fixed-rate savings and high demand have driven real estate prices 30% to 40% over the appraised value. Remembering 1988-92, the banks are not being fooled this time.

I'm warning you, don't get caught up in the FRENZY, like I did in 1988. This recommendation may hurt my sales business; however, I can always go back to dancing at Chippendales...well, maybe not. Having said that...If you find a "Great Deal," take it.

If your goal is a long-term hold, evaluate the refinancing option. The current, low interest rate situation will soon change. Make sure you run the numbers to see if a refinance will improve your position. Some 11th District loans are now at 4.5%, so it may not always be prudent to refinance. A break-even "hold" time can be calculated based on the terms of your existing loan versus the cost and terms of the new loan.

If your goal is to maximize the growth of wealth, consider selling at today's high prices. An alternate investment may yield a greater and a more secure growth of wealth.

Robert Kemp, one of the speakers at our 9-11 Workshop, discussed the interplay between various classes of asset investments, including T-bills, hi-cap stocks, mutual funds and bonds. Providing a different alternative, Michael Lawton reviewed what is happening in retail, office and commercial real estate, where there appear to be better bargains. What you do depends entirely upon your financial objectives – for both the long and the short term.

On the back page is an example that shows how selling today provides \$31,000 cash-in-hand, even after capital gains. If you invest that profit and achieve a 10% return, in two years you'll be \$71,000 ahead.

The bottom line is that I truly believe that now is the time to get the very best dollar return on your property. If you want to stay in residential real estate, then look at properties that put you in as free-and-clear ownership position as possible.

*(see Sell Now vs. Sell Later continued on page 2)*

## wrgorman.com

*The wrgorman.com website has expanded.*

### CHECK OUT OUR NEW BULLETIN BOARD

If you haven't already done so, you really need to visit our website – [wrgorman.com](http://wrgorman.com). We have added a new feature that I think is going to make the site tops on your "favorites" list.

Inspired by my love of softball and one of my own favorite sites, B&N Softball, we have added a Bulletin Board where you can post questions as well as respond to inquiries from others. This way we can all share information and tips. Not only will I be providing input, I am asking several members of my Advisory Board to participate, as well.

To make the Bulletin Board even easier to navigate, questions will be separated into different topic groups. That way, you can check out areas of specific interest quickly and easily. Initial subject categories include everything from exit strategies, tax deferred exchanges, investment alternatives and estate planning to financing opportunities, market trends, evaluations, real estate options and such "basics" as property inspections, insurance, check lists and disclosures.

Best of all, unlike my favorite softball site, you won't have to pay anything. All you need to do is register as a participant. After that, you can sign-on at any time.

I'm really looking forward to being able to interact with all of you via this new addition to the [wrgorman.com](http://wrgorman.com) website. Post a question or add a comment, you never know what you might learn or who may reply.



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# ADVICE FROM AN EXPERT

## IS IT TIME TO REFINANCE YOUR APARTMENT LOAN?

by Nick Lieberman

There are generally two reasons an investor refinances: (1) to get a lower interest rate; or, (2) to generate cash.

If a refinance is motivated by the desire to extract cash, the terms of the refinance, while important, are not necessarily paramount.

But for the owner who desires no cash out, the decision to refinance boils down to this set of questions:

- What is the net cost of the refinance?
- What will the annual savings be relative to the existing loan?
- What is the holding period?

If these three questions are answered, so too is the question of whether to refinance. In short, if annual interest savings will pay back the refi cost in a time shorter than your holding period, pull the trigger. Otherwise pass.

A common misconception is that the new interest rate should be two percentage points lower than the old interest rate to make a refinance cost effective. Wide variations in loan sizes and costs make that ancient rule of thumb obsolete.

The greatest challenge in analyzing a refinance is trying to project the behavior of an adjustable rate mortgage. Assumptions about annual interest savings become speculative when an interest rate is subject to fluctuation. Past performance charts of ARM indices provide a helpful context, but no guarantees. Other considerations in the mix include interest rate floors and ceilings, loan terms and prepayment penalty provisions.

Sometimes the best loan you can find is the one you already have.

*Nick Lieberman, president of Bona Fide Mortgage, serves on the Advisory Board of W.R. Gorman & Associates. With more than 20 years of experience in mortgage banking, Mr. Lieberman specializes in residential and income property financing. He may be reached at (949) 651-0999 or via e-mail at [nlieberman@cox.net](mailto:nlieberman@cox.net)*

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Sell Now vs. Sell Later *continued from page 1*

## Sell Now Analysis

### Sell Now vs. Sell with Higher Interest Rate

<b>4-plex purchased ten years ago</b>		<b>Adjusted Cost Basis</b>	<b>ACB 2 yrs later</b>
Purchase Price	\$300,000	\$300,000	\$300,000
Down Payment	60,000	deprec. <81,800>	<98,000>
1st Trust Deed	240,000	ACB 218,200	202,000

<b>Sell now \$500,000</b>	<b>Sell 2 yrs later \$445,000</b>
7% Interest Rate TD	9% Interest Rate TD
Income \$50,000	\$54,000 (1)

Sell Price	\$500,000	\$445,000 (2)
Selling cost 7%	<35,000>	<31,150>
Loan	<206,000>	<196,000>
Tax 28%	<69,104>	<59,318>
Net Proceeds	189,896	158,532
	<158,532>	
<b>Sell Now Bonus</b>	<b>\$ 31,364</b>	

### BREAKEVEN RETURN

<b>Present Value</b>	<b>Time</b>	<b>Future Value</b>	<b>Return Rate</b>
189,896	2 years	158,532	<8.63%>

### GAIN AT 10% RETURN

<b>Present Value</b>	<b>Time</b>	<b>Future Value</b>	<b>Return Rate</b>
189,896	2 years	229,774	10%
Less Sell 2 yr Bonus for Selling Now with 10% Alternate Investment		<158,532>	
		<b>\$ 71,242 (3)</b>	

- (1) 4% per year increase
- (2) \$445,000 is the value that will give the buyer the same return as today's buyer with 7% interest loan (2 pt. differential)
- (3) Buy new Lexus (all cash)



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