

MONEY MATTERS



by Jacob Yadegar

Will the Real Estate Bubble Burst?

TIPS FOR STAYING AHEAD OF THE GAME

With the tremendous rise in real estate prices, people are wondering where we are headed. Are real estate prices going to crash like many predict?

Throughout history, real estate has always withstood the test of time and has been a tremendous source of wealth retention and growth. In Southern California we are especially privileged because we have an extremely dynamic real estate market, which is supported most importantly by population growth.

While it is unlikely that we will see a major slowdown in the real estate market, there are some things that can be done to protect against a possible downturn. One of the most powerful tools to cushion any decline is to insure that you have the best possible financing for your property and objectives.

Generally, longer-term fixed-rate mortgages can help make it easier to endure the downturn because you can eliminate a lot of the risk associated with rising interest rates on adjustable rate and short-term fixed-rate mortgages. In the past, many who converted their fixed-rate loans to adjustable rates benefited tremendously because rates have come down consistently, but I believe that we have seen the bottom and should see rates increase over the next several years. Therefore, a long-term fixed-rate loan is the product of choice.

Secondly, make sure to have plenty of reserves to help meet any cash shortages you may have by reduced income caused by work fluctuations, higher maintenance and carrying costs caused by increased insurance,

taxes and other possible unknown factors.

With mortgage rates at all-time lows, refinancing is an excellent way to increase your cash reserves while potentially reducing your rate and lowering your monthly payments on your existing financing. Consider consolidating bills, installment loans and other debts with your mortgage to reduce your overall monthly payments. In many cases, the mortgage interest expense is also tax-deductible, which further increases the benefits.

Another significant tool is to anticipate property repairs and have them completed now while there are favorable rates and terms available for financing the project. Another option is to set up a property reserve account, which will enable you to put a certain amount away monthly for future repairs.

Also, consider setting up an impound account with your lender for property taxes and insurance to be paid monthly with your mortgage payment and held by the lender until they are actually due. In the event of a downturn, the money for your real estate taxes and insurance will be set aside in advance.

Feel free to contact me directly to review your specific situation and to come up with a plan to help you get better prepared to handle your future.

Jacob Yadegar is CEO of Empyrean Funding. He can be reached at (310) 571-3672 or you can stop by the Brentwood Gardens, 11677 San Vicente, #206 for a cup of coffee.