

Good Happenings

News & Insights from the Ron Sitrin Team

How a guy with a forest in Oregon helped my friend Ben buy a house

BY RON SITRIN

About 12 years ago I met Ben Knowlton. His family had recently moved to the area and were ready to buy their first home. One thing particularly important to Ben was making sure his housing choice was a smart investment. Since he was early in his career, his budget was limited, but he knew he had to start somewhere.

That somewhere turned out to be in Hyattsville. It wasn't terribly convenient to where Ben worked, but the duplex we found was perfect in two ways – it would provide his young family a place to live and the income from the lower unit would help offset the mortgage.

Fast forward to today and that decision seems like a stroke of brilliance. What started as a small investment has appreciated by over \$300,000.

Ben has since moved his family to another home and this original two-unit house has been an excellent investment. Ben now wants to sell his two-unit investment property and buy a four-unit one.

This is where the Oregon forester comes in. Back in 1967, a forester worked out a transaction with a logging company. He exchanged



his plot of forest, (the value had greatly appreciated), for several other pieces of land. The IRS saw the transaction and insisted that the forester owed capital gains taxes and penalties. The IRS's reasoning was that the forester realized a profit when he exchanged the land.

The forester didn't think the IRS was right. In effect, all he did was trade one plot of land for others. He thought he had a good case, so the forester – T.J. Starker – took his grievances to court and sued the IRS.

It was a complex case and eventually reached the US Ninth Circuit Court where Mr. Starker was ultimately victorious. **Congress took note and today we have a provision that helps investors defer millions of dollars in taxes.** It's called the 1031 Starker Exchange.

For Ben, the Starker exchange means he can sell his two-unit property, defer paying \$90,000 in taxes, and then reinvest the gains into his next investment. If Ben gets a loan, this gives him an extra \$450,000 of buying power.

Properly used, a 1031 Starker Exchange is a savvy way for investors to sell one property and roll all the taxes due into the next one. This gives investors greater purchasing power. It also means this story has several happy endings... Ben and his family can find buy their next great investment, I get to work with a great client, and we all enjoy hearing, even if it was 55 years ago, that someone actually beat the IRS.

When FOMO and Interest Rates Collide

How rising interest rates affect the market – and your payment

BY RON SITRIN

It seems like with each passing month the real estate market gets more complex and harder to predict. In the last few months we've seen the effects of rising wages, inspired millennials, gas hikes, housing and supply shortages, inflation, international tensions, and even Disney World is in the headlines.

In addition to all that, the Federal Reserve is trying to keep markets stable by slowly and methodically raising interest rates. While a great idea in practice, it's homebuyers that will see and feel the most immediate effects. What does this mean for buyers? How much does a one point increase in interest rate impact monthly payments?

Take a look at the chart on the right. We've broken down the monthly impact of interest rate increases for the entry, middle and upper segments of the market.

For an entry level condo buyer, you can see that the interest rate rising from 3% to 4% on a \$250,000 loan means about \$140 more per month. It's real money, of course, but in the grand scheme of things it's not a huge amount. Perhaps that means tapering off a Starbucks habit. An interest rate hike to 5%, now \$290 more than our 3% baseline, and we're close to a typical car payment. At 6%, we're nearly \$450 over our baseline and looking at a monthly nut that might give a homebuyer pause or even discourage them

Monthly payment for a 30-year fixed mortgage (Excludes taxes, fees and insurance)			
	Loan Amount		
Interest Rate	\$250,000	\$500,000	\$1,000,000
3.0%	\$1,054	\$2,108	\$4,216
4.0%	\$1,194	\$2,387	\$4,774
5.0%	\$1,342	\$2,684	\$5,368
6.0%	\$1,499	\$2,998	\$5,996
16.63%*	\$3,486	\$6,978	\$13,957
*Average rate in 1981			

from buying.

On the high end of the chart, you can see how the payment gets exponentially higher as rates climb from 3% to 6%. It's a \$1,780 monthly difference on a \$1,000,000 loan. That's \$21,360 per year. On a \$300,000 salary needed for this size loan, that's a 7% reduction in disposable income.

These examples show how the rising rates put pressure on both ends of the market. **For the first time buyer it's a bigger stretch to get into home ownership.** They have the option to continue renting and will do so if it makes more economic sense. **At the high end, a homeowner is less inclined to trade up.** For them, buying a more expensive home means giving up their current rate of 3% and having to now borrow at 5%.

What does this mean for today's buyers? Rates are currently around

5%. So those looking to buy today will pay more in interest than if they had bought five months ago. The good news though, 5% is still a great rate. We are still well below the historical average of 7% interest rates. There was even a time when rates hit 16%. (On the plus side, Disco was effectively dead by 1981, so *some* good came from that era).

Perhaps though, the increase in rates will do what it's supposed to do, **cool off the market.** Market shifts take months to play out and it's still too early to tell. We have noticed the aggressiveness of multiple offers has started to calm down. At the moment though, the ongoing inventory shortage is still giving sellers the upper hand.

So here is my take: interest rates are likely to go higher, regardless of rates, people still buy houses, and buyers rarely regret purchasing their perfect home.

My dog earns every treat

That stat on the back page of this newsletter is no joke – my dog Hershey has helped me meet more clients – and make more friends – than a lot of the advertising I've tried over the years.

It certainly makes sense. Getting out there to walk the neighborhood or a local trail is a great way to meet people. Hershey is by nature super friendly and she's great with other dogs too. Awhile back we met a neighbor, Lisa San Fuentes. Lisa recently referred two first time buyers to us.

We are happy to report, Bria, loves her new condo and its walkability to Downtown Crown. Shari and Mick got a great home with an amazing back yard for their son.

Now just don't tell Hershey about real estate commissions...



A friend that's used to trouble brewing

I'll never forget, it was 20 years ago when Wynne and I had our friends Eric and Linda Platt over. Our daughters, Gabby and Samantha were playing in Gabby's room. They were in preschool at the time. Suddenly we heard a huge crash. We rushed upstairs to see Gabby's 100 pound dresser toppled over onto the floor. **Both kids were a bit shell shocked but thankfully unharmed.** Who knew a dresser could be so dangerous?

I recently had my friend Bobby Brooner over for coffee and conversation. Bobby is the president of Baby Proofing Montgomery. He and I see houses in totally different ways. I see them from a Realtor's perspective. He sees them for all their lurking dangers that can harm babies and toddlers.

Stairwells, dressers, decks, kitchens and bathrooms are mostly



Bobby Brooner joined me for a good cup of coffee and talk about houses.

safe for adults, but the young ones are still learning about gravity, sharp objects and boiling water. Bobby taught me how he makes homes safer for our little ones. He even pointed out that their baby gates are pretty popular with dog owners too.

Most of my coffees centered around how to make great coffee or real estate. The truth is, though, I love learning new things. Bobby's insights provided me with new ways to advise home buyers – particularly those who are just starting families or watching the grandkids.



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It's a Dog-Meet-Dog Business...

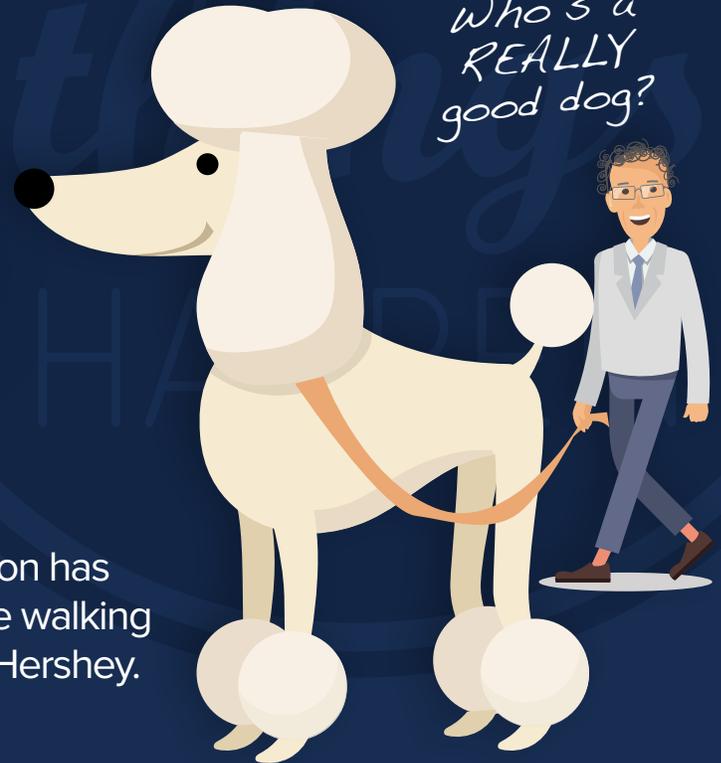
6,000

Number of dogs registered to come to work at Amazon's Seattle headquarters

vs. 21

Clients Ron has met while walking his dog, Hershey.

Who's a REALLY good dog?



Good Happenings

Good Happenings is a look at market trends, Ron Sitrin Team insights, great stories and good things we want to share with you. All content and information shared is approved by the clients. We hope you find interest in our story on interest rates – and all our other fun content. Can we help you buy or sell? Give us a call today!

The Ron Sitrin Team

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Have a question, story idea or comment? Give us a shout!

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