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Seven reasons to buy country property in 2008

By Curtis Seltzer

BLUE GRASS, Va.—January is America’s month of endless football cliches.

“Coach, how are you going to win the Super Bowl?”

“Well, first, our front four has to beat theirs in the trenches. Then we have to throw the ball and run it too. Our special teams have to do a few things. And we have to make some plays. Finally, we have to hope that their safeties get penalized for taunting after interfering with our too-wide receivers, none of whom can do 40 yards in less than three or four minutes.”

Those of us who have been watching pro football since the days of Jim Brown know that there is only one way to win every football game: score more points than the other team. Making a sensible real-estate investment is often summarized in this equally simple rule: buy low, sell high. Buying low means something different than squeezing a distressed seller to accept a low-ball offer. It means buying at the right price and terms when circumstances favor the buyer.

2008 promises to be as good a time to invest in country real estate as any. Here are seven reasons why.

1. Panic pricing. Most economists are predicting that residential housing sales and prices will not pick up until 2009. Foreclosures are adding houses to a market already hungry for buyers. Sellers who need to sell are increasingly willing to give up their hope for an inflated price.

Sellers fear that if they don’t sell now, they’ll get a lower price in the future. Fear is infectious. Bad news from banks and talk about recession will spook the herd—both sellers and buyers. Buyers fear buying into a declining market. So they’ll sit on the bench hoping to get in at the precise minute when the absolute bottom is reached. Perfect timing is rarely achieved. A timing buyer usually waits too long, panics, then rushes into a rising market. Buyers should remember that sellers who do not need to sell right now, don’t have their properties for sale. Put another way: Sellers today are motivated.

Buyers who buy when most of their peers are sitting on the sidelines get the good deals. Desperation is unpleasant to see and worse to endure. But scared sellers fear the fear of future unknowns more than they fear a little less sale profit in their pocket. Buyers get scared sellers out of where they no longer want to be. Cash works: Trade cash for a price discount.

2. Flexibility. Fear makes sellers flexible. Buyers should propose terms that ask sellers to help make the deal work beyond lowering their price. Sellers may have the ability to finance part of the purchase price, which saves buyers money that would otherwise be given to lenders. They may be able to fix something, do something or pay for something. They can always pay more than the customary share of closing costs and taxes.

3. Loans are here. Mortgage money for second homes and rural land has not dried up. Most lenders have not significantly tightened their lending practices, according to recent surveys. Locally owned banks, credit unions and federal Farm Credit cooperatives are rural lenders of first resort. Some sellers will be able and willing to finance a sale, in whole or in part.

4. Interest rates. Recent Federal Reserve decisions have lowered interest rates. The Federal-funds rate is 4.25 percent, down from 5.25 in September. Prime is 7.25. A Bankrate.com survey of 4,800 online banks quoted in the Wall Street Journal on January 8 showed that the average 30-year, fixed-rate mortgage was being offered at 5.68, with a 15-year fixed at 5.22. These are buyer-friendly rates.

5. Labor and materials. Whenever new construction slows, all trades that depend on it are eager for employment. Buyers are likely to get better work, done faster and maybe a little cheaper in 2008 than at anytime in the future.

Get several building-supply dealers to give you their cost estimates on your project's needs. Let each supplier know that you are willing to buy all your material from the one who promises to be the best package of quality, reliability, compatibility and price.

6. Build a nest egg. Rural property, bought right, is one path to building wealth for middle-income Americans. A second home can be rented, which brings the owner both income and tax benefits. As an investment property, it can be eligible for a 1031 tax-deferred exchange. Land may produce income from farming, timber sales and leases as well as business-related deductions, tax benefits, crop subsidies and cost-sharing for work that promotes conservation. It may be eligible for a conservation easement, which helps on federal, state and local taxes as well as with estates.

A second home can be turned into a full-time principal residence, then sold, leaving much of the taxpayer's long-term capital gains tax-free. Or, it can be folded into the tax-free portion of your estate and passed on to heirs. In most cases, rural real estate should appreciate as fast, if not faster than, inflation—at the very least. The easiest way for young people to save for retirement is to buy a piece of rural land and hold it for 30 years. Leveraged money allows the borrower to capture the long-term appreciation on the full value of the property, not just the cash the owner has in it.

7. Cooperative helpers. When the real-estate market is slow, brokers, agents, lawyers, surveyors, lenders and everyone else involved in a purchase should be willing to work hard and be competitively priced. Your sale, no matter how small, is important when sales are moving like slugs in molasses.

The trick is to shop vendors and pick those who promise to be both compatible and competent. A buyer's market makes everyone nicer, not just the seller. Lenders may be willing to discount their up-front fees to get your business; but you have to ask. Don't accept a loan with a pre-payment penalty. Look favorably on long-term, fixed-rate mortgages rather than ARMs with low teaser rates that blow up like improvised explosive devices.

Buyer-friendly circumstances do not exempt buyers from the obligation to protect themselves by thoroughly researching property before making an offer. Emotion-based, impulse buying is the enemy of profit and happiness. The buyer who buys will-nilly needs money to burn, because burn it he will.

While 2008 is a buyer-friendly moment, buyers will serve their own interests by not hammering the last nickel out of their sellers. The way someone enters a rural community is closely observed. When fear saturates real estate, the market eventually resets a sustainable rate of buying and selling at lower prices. This hurts sellers, but it's business--not personal. Buyers should not gloat when the market tilts the playing field in their favor.

And one other thing: when you have the ball, don't fumble.

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