

"Ask the Pink Realtor"



Hollywood Real Estate Q&A

ALIER | Ask@pinkpalm.com

Have a question about the real estate market? E-mail Ask@pinkpalm.com

Dear Pink Realtor,

We enjoyed your article in the recent issue of the Hollywood Gazette.

I am 88 years old, and my wife is 85 years old. Are we too old to invest in real estate?

We own our own home, and we do not want to buy a home or condo. What else is available? What would you suggest for folks like us?

Sincerely,

On behalf of Super Seniors of Hollywood

Dear Super Senior,

Thanks for the positive feedback on the column.

When it comes to real estate investing — investing of any kind, really — it is key to understand your personal situation as it relates to what investments you are considering. Specifically, you should consider your risk tolerance, goals and (perhaps most importantly) your ability and skill.

There are many ways to invest, and many real estate opportunities out there. My suggestion is to consult a professional, understand the risks (of any investment) and make an informed decision you feel good about.

Warren Buffet famously offered the following advice: "Investment must be rational. If you can't understand it, don't do it."

Your question about being too old leads me to believe you assume real estate investing is lucrative only because of appreciation of the asset/property. Historically, real estate investing was primarily focused on cash flow. Simply stated, this means an investor forms a buying decision on a property based on the amount of income that property would produce in a given year. The idea of buying real estate to capitalize on appreciation is a relatively new idea and not a particularly good one.

Over the past 40 years, real estate in the U.S. has appreciated at a rate of about 5.32 percent per year (including the recent bubble up and burst). Although this is a decent return and better than one

could expect in many CD, money market or savings opportunities, it is only one part of the story. When a property produces cash flow, it is in addition to the appreciation accumulated over time.

The "buy and quickly sell" strategy, sometimes called "flipping," is not an investment strategy but a speculative play, and one I do not recommend.

For a Super Senior, real estate might be an excellent investment medium. If you were to purchase a property to rent out, for example, this would provide you with monthly income. I have seen young families buy real estate that supplements their income now and promises to hold value for the future. In 15 years, they could sell the investment property and send their children to college.

To properly determine the best place to invest your hard-earned dollars, contact your trusted financial adviser to assess the risks and rewards.

Dear Pink Realtor,

After years of renting in Hollywood every season, my wife and I have decided to buy. We have been shopping for a winter home all season and keep seeing condo-hotel opportunities. Everyone says that these are not timeshares, but they seem to be more like timeshare than condos. So far, we don't feel comfortable with the concept, but the prices are so low.

Sincerely,

In Condo-Tells we Don't Trust Snowbirds

Dear Snowbirds,

We get many questions about condo hotels. You are not alone in your confusion about them.

A condo hotel, also known as a hotel-condo or a condotel, is a building that functions as both a condominium and a hotel. Condo hotels are typically high-rise buildings developed and operated as luxury hotels, usually in major cities and resorts. These hotels have condominium units which allow

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someone to own a full-service vacation home. When they are not using this home, they can leverage the marketing and management done by the hotel chain to rent and manage the condo unit as it would any other hotel room. Basically, you own a hotel room.

One source of confusion is in the type of advertising that is legally allowed for condo hotel projects. Some condo projects have advertised themselves as real estate investments, but because the value of these condos as a real estate investment is not entirely clear, the U.S. government currently disallows use of any reference to “investment” when advertising condo hotels.

The analysis of the economics of a condo hotel unit is the primary reason they are not allowed to be called “investments.” Establishing a value, return or projecting income is extremely difficult because of the challenge of getting accurate information about the potential income stream. Sellers do not provide data or estimates for room rates or occupancy levels for fear of coming under U.S. Securities and Exchange Commission (SEC) regulations on investments, as opposed to real estate regulations.

The primary factors that contribute to the financial outcome in ownership are rental revenue, appreciation or depreciation, lending and tax deductions.

Rental revenue is shared with the management company, and owners typically pay no upfront fees for management, which includes the marketing and reservation of the units. Typical monthly fees for units in the rental pool include FF&E (furniture, fixtures and equipment) reserve and resort fee(s).

Although the revenue splits between owner and management company do vary from project to project, most hover around 50 percent. Most condo hotels, and especially branded hotels like Westin or Ritz-Carlton, are strategically located in resort economies or popular urban destinations, which allow for high nightly rates and consistent year-round occupancy. Rental income from hotel guests is at the mercy of travel patterns and may decline.

Just like traditional real estate, appreciation is never guaranteed. This very scenario most recently occurred in Las Vegas. Several of the more notable condo hotels have sold for less in the resale market than during pre-construction.

Financing is generally costlier for

a primary residence. Mortgage rates may be a full point higher, and in the past, this was especially true because financial institutions were unfamiliar with the condo hotel concept. Pre-construction purchases require a significant down payment, and buyers will not see financial return or be able to use their unit until the hotel is completed and ready for operation. Furthermore, owners may have to purchase extra insurance to protect against liability claims and some types of damage or loss.

As with most condominiums, owners of condo hotel units are required to pay fees, commonly referred to as HOAs. The fees and services can vary a great deal. Factors causing a fluctuation are the hotel’s star rating and operation level and its physical location. A property located on the ocean, for example, can experience coastal weather regular basis, which in turn can increase the need for more regular maintenance to the exterior of the building. Along those same lines, a property located in a ski resort must weather powerful winter storms and must also deal with snow removal services.

Exceptions aside, many of the fees and services found in HOAs are fixed and fluctuate very little from project to project. Services such as these usually

include general unit utilities, common area utilities, individual room and building reserves, grounds maintenance, exercise area use fees, security, pest control, mechanical repair costs, safety alarm systems, parking area and pool area maintenance, and owner management and administrative services. Items related to hotel guest impact are generally not included in the HOA fees; these would include housekeeping and costs related to hotel staffing and operation. 

LeCavalier has an extensive background in land development, construction, mortgage banking, and real estate sales, marketing and management with more than 15 years experience in the industry. She is known as the “Pink Realtor” around South Florida where she and her team cheerfully serve the real estate needs of many clients. In addition, LeCavalier serves as Fund Manager for SISCO Limited Partners, a private equity fund that rehabilitates foreclosed properties and rents them via affordable housing programs in Broward County, and she is a licensed Real Estate Agent and an Accredited Residential Manager (IREM, ARM).

For more information, visit www.pinkpalm.com.