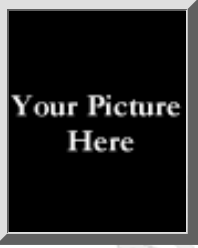


Your REALTOR®

March 2006

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# REAL ESTATE *Update*

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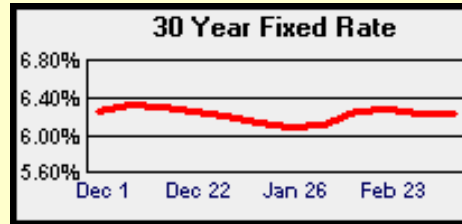
**Mortgage Rates Ease****I**n Freddie Mac's Primary Mortgage

Market Survey the 30-year fixed-rate mortgage (FRM) averaged 6.26 percent, with an average 0.6 point, for the week ending February 23, 2006. Last year at this time, the 30-year FRM averaged 5.69 percent.

"Tame core inflation figures and market confidence that the Fed will continue to keep inflation low kept mortgage rates in check," said Frank Nothaft, Freddie Mac vice president and chief economist. "Over the long term, we expect mortgage rates will bounce back and forth a bit, remaining near current

**Mortgage Rates**

Source: Realty Times

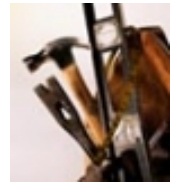


U.S. averages as of February 23, 2006:

**30 yr. fixed: 6.26%**  
**15 yr. fixed: 5.89%**  
**1 yr. adj: 5.32%**

levels."

"Based on applications for home purchases in November and December, we also expect that home sales will slow to a more traditional pace."

**Remodel Boom Seen Continuing****W**hen it comes to

remodeling, the Baby Boom generation will keep on booming. And they'll be followed by spendthrifts known as GenXers.

"Boomers aren't done in terms of remodeling activity," said William Apgar, a former federal housing official who is now senior scholar at Harvard's Joint Center for Housing Studies. Normally, spending on remodeling tends to fall off when home owners reach age 50. And by age 70, they're down to "doing only basic stuff," Apgar told a press briefing.

But the huge Baby Boom generation, members of which begin turning 60 this year, have been spending twice as much as the 50 to 70-year olds that have come before them, he pointed out. And there's no reason to indicate they are likely to stop. Boomers "are outspending their predecessors, and that's likely to continue," the former FHA Commissioner said. "And when that generation finally does begin to tail off, pretty active GenXers are coming right behind them. So there's not going to be any substantial fall off in remodeling activity far into the future."

Despite the recent refi booms, owners still have \$10 trillion in equity left in their homes, and they'll spend lots of it on their houses in an attempt to keep up with the Joneses.

As home prices rise, owners want to improve the value of their real estate. They'll want larger homes and better features as they try to keep up with the new houses that are being built bigger and better.

**Conquer Closet Woes Before You Move In****W**hether you have

the smaller closets of an older home or the spacious storage areas of a newer house, it's important to use the space wisely. Here are a few tips for strategic storing:

- Before you put hanger to rod, assess whether you really need or wear everything you own.
- Write down what you have and take it to a closet-design company or a home improvement store. It's easier to buy what you need if you can see all the options and match them to your clothes.
- Choose a flexible system. Lots of bulky sweaters? Shelves may serve you best. Add a second, lower bar to take advantage of that unused space.

**Give Your Kitchen A Boost When Selling****T**here are ways to

make your kitchen sparkle before you put your home on the market. Repair leaky faucets and remove stains from the kitchen counter and sink. Clean the interior of your oven and dishwasher, as someone is sure to open them and dirty appliances can convey an impression that will extend to the rest of the house.

"Before taking out walls or committing a lot of money, you have to ask, does it need a facelift or major surgery," said Jason Feldman, director of style, innovation, and design for Home Depot. "There's no point in replacing cabinets or making structural changes if all that's needed are a few cosmetic improvements."

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## 'Good Deal' Matter of Interpretation

By M. Anthony Carr



Everybody's looking for a good deal. Sellers want the highest price possible and buyers want to buy a house below asking price. They both want the same thing -- a good deal. Following years of a sellers market, many consumers are facing a more normalized market across the country. Particularly, in large metropolitan markets, the normalizing of the market has created a wait and see attitude on purchasing or selling real estate.

For the wise investor/home buyer, the cautionary phrase of "wait to buy real estate" should give way to "buy real estate then wait." One of the keys to savvy real estate investing -- whether for personal use or wealth building -- is timing. In a seller's market, every buyer who was serious about getting into a home, knew it was time for bidding up. Getting the best price with the best terms was not a winnable strategy for so many buyers. The name of the game was winning the house.

Interestingly, buyers had no problem bidding up a house \$25,000, \$50,000, even \$100,000 to "win" the house in the Washington, D.C. market just a few months ago. And as prices moved upwards at a clip of 20 percent per year, more buyers jumped in, buying high in hopes of gaining a lot of money in a matter of weeks and months.

Now that price escalations have simmered to a normal pace -- the buyers have stopped the bidding frenzy -- which is exactly when the smart buyer should enter the field.

In a buyer's market, buyers must understand that those who negotiate win, and win big. If you have a house on the market for \$420,000 and you want to get it for \$399,000 the only thing stopping you is your personal will. If you think you want it for that amount -- then write up an offer for that amount and let the negotiation begin. In addition, while you're offering less money, toss in a home/radon/roof inspection, \$5,000 in closing costs and the hot tub in the backyard.

Meanwhile, on the other side of the fence, sellers must learn a lesson early in a normalizing market -- it's time to price ahead of the market (that means get ahead of the price reduction

curve).

Pricing ahead of the market, makes many sellers cringe, thinking they are "losing" money on their house. This attitude makes me shake my head in wonderment when I think about it. Looking over average sales prices as if it were a stock quote, homeowners will talk about how they have "lost" money on their home. The discussion goes something like this:

"I lost \$30,000 on my house. It's only worth \$410,000 now."

"Really? So, you bought it for \$440,000?"

"No -- but my neighbor's house sold for \$440,000 last fall and now the same model is on the market for \$410,000. I have the same model, so I must have lost \$30,000."

"I thought you bought your house five years ago for \$220,000?"

"Yep."

"So where did you lose the \$30,000? Sounds to me like you've gained \$190,000."

It's all a matter of perspective. If you've gained \$190,000 and you want to move up (or down) the level market is the time to get off the fence and make the good financial decision. Though your house price may have dropped -- so has the house price of the move up property.

Sellers should also heed a bit of advice that all agents know and understand -- the first offer is usually the best offer. As a seller, if the price really looks low -- flow with it. Counteroffer. Make the terms and price work. Obviously, beware of bottom feeders - those who are looking for desperate sellers; however, a price fluctuation of 5 percent is not that bad.

The problem for home sellers is the psychological challenge they face, realizing that 5 percent may represent \$20,000 dollars. If you're moving up, though, keep in mind the \$20,000 "loss" on your sale, may be leveled out by the \$20,000 "gain" on the move up property.

The hot market of 2006 has begun. The economy is booming, inventory is up, prices have leveled, interest rates are still historically low -- what are you waiting for?

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**Decorating in Small Spaces**

By Debbie L. Sklar



Sometimes smaller is better, especially when it comes to space. Think cozy and quaint rather than throwing your hands up in the air and screaming: "Oh it's so cramped! I give up!"

There's no need to be discouraged. In fact, decorating a small space can be a fun challenge that requires you to be more innovative than ever.

Start out by acknowledging the many advantages inherent to small homes. Small rooms generally require fewer furnishings and accessories, so your decorating budget can get you a little further. Small rooms can also inspire you to do something we all need to do: get rid of clutter.

Since storage space in small dwellings is likely limited, getting rid of unnecessary items is a must. However, people living in larger homes with plenty of storage can more easily fall into the pack rat mode, too. And of course, small spaces can be quite inviting, that is if you decorate consciously and creatively.

So, for each area of your home, you might want to consider these ideas to help you maximize your space as well as your decorating dollar:

- **Kitchen:** Use over-the-cabinets space for storage of little-used items or decorative display of collectibles; hang pots from a rack suspended from your ceiling; open up cabinet and drawer space by placing cooking utensils and spices in baskets, crystal bowls or ceramic pitchers.
- **Living room:** Paint the walls a light hue and use sheer curtains to invite in the sunlight; instead of a coffee table, use an ottoman with a tray on top to hold drinks and prop up your feet (also for extra seating in a pinch); create tables that do double duty as extra storage by stacking suitcases, using an old trunk, or by stacking two old soda or wine crates and adding a glass top.
- **Bedroom:** If there's ample space in your closet, move your dresser inside to free up main area floor space; instead of night tables, place a small, wall-mounted shelf on each side of the bed to hold nighttime needs like a small lamp; if you're low on closet space, use the space under your bed to store out-of-season clothing; if you need an armoire but can't

afford one, make or buy an inexpensive bookshelf and attach curtains (or canvas) to cover up the clothing but still offer easy access.

- **Bathroom:** Use an over-the-commode shelving unit to hold essentials if cabinet space is sparse; use several decorative hooks instead of a towel bar and you can hang up more towels (and robes) in a small wall area.

Another vital rule in small space decorating to keep in mind is that dark colors make things appear smaller and light colors make things appear bigger. If you're tired of your white walls, a taupe or sand color is a great substitute. These aren't gleaming, but they also are not dark enough to close a room in, making it longer than it is.

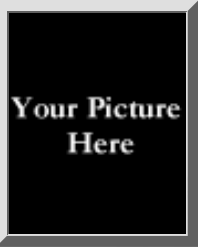
You can accent -- that is add a little color -- with candles, pictures, paintings or pillows, or brighten things up with curtains. If you have a lot of windows to dress, stick to a neutral color because a dark color can have the same effect as painting your walls.

Also, multi-function pieces of furniture are perfect for small spaces. For example, try a loft bed, which puts your bed off the floor. If it's high up, it opens up the floor space for other purposes. A couch or desk can fit easily underneath, too for more space saving. If you don't have enough space for a bed, or you don't like sleeping in high places, a futon or pull out couch can act as a couch by day and your bed at night.

Need more storage space? A storage chest can easily double as a coffee table. Hanging shoe racks are also a way to create more space in a closet. Toiletries can hang, too, creating more counter space for other bathroom supplies. To create the illusion of a bigger space, try hanging a large mirror reflecting a window from across the room. It instantly makes the space look bigger.

Finally, it is important to find the style that you like. Whether it's Modern, Victorian or Country French, the style should reflect your personality. After all, you're the one who is going to be living there. With a little creativity, you can make living in a small space as comfortable as living in a castle.

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# REAL ESTATE Update

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## Online Appraising: A Thing of Value to Whom?

By Peter G. Miller



Looking online at the value of real estate and the process has been illuminating -- arguably not accurate or especially useful, just illuminating.

If you want a satellite photo of a home, there's no shortage of locations that can provide such art, much of which is excellent. If you want a street map, that too is easily found online.

But when it comes to figuring out the market value of a property -- the magic question of how much to pay or how much to accept -- a recent look at online valuations was wildly disappointing.

- For one property I checked the value is some \$90,000 below the price paid last summer. Everyone seems to know the number of baths as well as the size of the property, but no computer seems able to fully value a home that backs up to creek or has a hot tub on the deck. For this, apparently, you need human eyes.
- Then there is the Cape Cod which sold last year for \$485,000 and now, says the computer, is worth a mere \$429,000. This would no doubt amaze the new owner, an individual who has beautifully remodeled the house, landscaped the entire property and lives in a ZIP code where typical home prices increased \$95,000 last year.
- Lastly we come to a home which is allegedly worth \$509,000. This seems unlikely in a ZIP code area where home values rose by an average of \$68,000 in 2005 and nearby homes on the same street have been selling for \$550,000 and up.

As much as computers are to be applauded, the invisible hand of automated valuations seems remarkably unsteady. Suggesting for one property a range of possible prices from \$317,580 to \$508,849 is useless; no seller will accept the lowest figure and no buyer will be enticed by the highest.

While it's entirely possible to have statistics regarding past sales, lot sizes, property taxes and other objective measures, when it comes to valuations I'll stick with local brokers and appraisers.

This is not to say at some distant point in the future online valuations won't improve. Software and formulas will undoubtedly progress and online sites will have access to more

sale information on a more-immediate basis. In addition, public feedback will be encouraged as a correcting mechanism. This is all to the good.

Still, when it comes to buying and selling real estate I remain pro-human.

The issue is not that the Internet lacks value or utility, rather there are some things beyond even the powers of computerdom.

How do you value a view? Sounds silly, but if you look at the photos for 100 listings it's instantly obvious that some properties are more attractive and valuable than others -- at least to people.

To make matters more complex, whatever it is that constitutes "value" in real estate is a mix that differs among individuals. Not all homes with four bedrooms and 2.5 baths are created equal, thus the rush to buy some homes and the hurry to get away from others.

Valuations are part numbers and part mystery. I have little doubt that one day computers and the Internet will be able to capture the math fairly well, but I see no hope of electronically grabbing the magic.

At this point someone will mention the fabled stories of people buying homes from online photos. Such stories are no doubt true -- but in the statistical context of millions of home sales such things will happen. It's equally true that among billions of people some have six toes on one foot. People who buy homes from online photos are not evidence of a trend, they merely prove the existence of statistical improbability.

As dull and boring as it may seem, there's no substitute for physically looking at real estate. The value of real estate to buyers and sellers -- which may be different than the value to lenders and tax collectors -- is best established by walking through homes and seeing the neighborhood.

Ask yourself: As a buyer would you pay more for a home just because it has been assigned a computerized value? Would you accept less as an owner because a computer has somehow determined a sale price? Or in either case would you rely on your own sense of value, a sense enhanced by physically examining many homes, speaking with local brokers and engaging experienced appraisers?

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**"Cash-out" Refinancings Are Nearing  
an All-time Record***By Kenneth R. Harney*

American homeowners are on the verge of setting a new record in a key mortgage market measure: Cash-out refinancings.

The latest quarterly study by mortgage market giant Freddie Mac found that four out of every five homeowners are pulling out extra money -- often tens of thousands of dollars -- when they refinance their existing loans.

The 80 percent figure is the second highest rate on record, according to Freddie Mac chief economist Frank Nothaft, and is just one point below the record rate of 81 percent set in mid-2000. Equally significant, the rate of cash-outs soared by 24 percentage points in the past 12 months alone -- up from 56 percent in the comparable fourth quarter period of 2004 to fourth quarter 2005.

Moreover, cash-out refis are booming in spite of a half percentage point increase in 30-year mortgage interest rates during the past year. Normally refinancings decline when rates go up, but they accounted for nearly half of all mortgage applications during the fourth quarter of 2005. Most people who did cash-outs last quarter actually increased the note rate on their loans, rather than decreasing them, which is the customary purpose of a refinance.

What's going on here? Are Americans loading on even heavier, potentially dangerous debt loads? To the contrary, says Nothaft. They may in fact be substituting lower cost debt for higher cost debt -- a heads-up financial management move.

Freddie Mac defines a cash-out as any refinancing where the principal amount on the new loan is at least five percent higher than the loan being replaced. In recent years roughly a third to 40 percent of all refinancers pulled out additional cash. For example, in the second quarter of 2003, just 33 percent of

refinancers did cash-outs. In the first quarter of 2004, 42 percent of refis were cash-outs.

So why are cash-outs at near record levels now? Nothaft says the key factor has been the 12-month string of short-term interest rate hikes by the Federal Reserve Board. Those increases -- which affect the prime bank rate directly -- have had the side effect of pushing up the cost of home equity credit lines and second mortgages.

Home equity rates are usually linked to the bank prime, and are readjusted by the lender when short-term rates rise. The prime is now at 7.5 percent. Most fully-indexed home equity rates are set at prime-plus-one percent or even higher.

That means that equity credit line borrowers are facing rates of 8.5 percent or more once their teaser rate introductory periods expire. Worse yet, those rates could climb higher in the months ahead if the Fed ratchets them up further.

What's the alternative to floating rate credit lines? You guessed it: fixed-rate 30-year primary mortgages which last week averaged 6.25 percent. Evidently, according to Nothaft, large numbers of credit line borrowers are throwing in the towel -- refinancing their primary mortgages, cashing out additional money, and paying off their floating-rate debt.

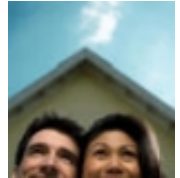
Rather than irresponsible financial behavior, cash-outs in the present circumstances look like a way to save money and nail down low fixed interest rates. Also, for homeowners who need capital for a major expense -- say a kitchen renovation or a downpayment on a second home -- a cash-out refi at 6.25 percent may well be the most cost-effective way to obtain that money. And thanks to high real estate appreciation rates in many parts of the country during the last several years, homeowners have sizable equity cushions to borrow against.

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**Ten Tips For First-Time Buyers***By Realty Times Staff*

Each year more than 40 percent of all homes are purchased by first-time buyers according to the National Association of Realtors, a percentage which should offer some comfort if you're about to buy a first home. Others have done it, others are doing it, and you can too.

But like most things, there are ways to make the process easier. Here in capsule form, are 10 baseline strategies to make that first purchase a good experience.

- Think credit. Poor credit will make you a bigger risk in lender eyes -- and more risk means higher rates and steeper monthly mortgage costs. Make a point of paying credit card bills, auto loans, rent, and other payments on time, all the time, and in full.
- Consider taxes. When you buy a home mortgage interest and property taxes are generally deductible from income taxes. This means while monthly housing costs may be larger when you own than when you rent, what you save in taxes can make up some or all of the difference. For details, speak with a tax professional.
- Know the broker's role. Real estate brokers are at the center of most property transactions. It's important for you to know what a broker does, who is represented, and how the brokerage system works.
- Consider what location will work best for you. Look at your needs, the needs of household members, and your preferences in terms of commuting, shopping, recreation, and other factors that are important to you.
- Plan on getting a home inspection as part of any offer you make. A professional inspection can help you understand

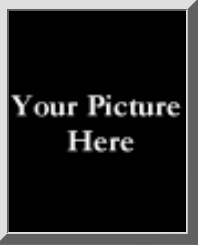
the condition of the property and the repair bills you are likely to face in the next few years.

- Look into the financing process as soon as possible. Get pre-approved so that you generally know how much you can borrow, what you can afford, and so owners will see you as a serious buyer.
- Save. You'll need money for a down payment, closing costs, moving, and other expenses. Put off trips and luxuries until after you're in your new home.
- Examine the different financial options which are open to you -- consider FHA, VA, and state-backed loan programs which require little down and have liberal qualification standards.
- Look for gifts and grants. According to the National Association of Realtors, 22 percent of all first time buyers receive gifts from relatives and friends. Some companies offer grants and other incentives to employees who are buying a first home. Community groups may also have programs and financing in place for first-time buyers, while the federal government has established special programs for teachers and police officers.
- Start now, take your time, and ask as many questions as you like. Being a first-time home buyer is challenging, but millions of people do it each year -- and you can too.

Have questions?

I'm here to help, and I can provide the information and materials you need. Contact me today.

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# REAL ESTATE Update

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## Hurricane Spawned Tax Relief: IRS Publication 4492

By Broderick Perkins



If you housed anyone displaced by Hurricane Katrina, if you were displaced by one of several hurricanes, if your home was in one of several hurricane zones, if you donated money, food, or car driving services for the relief effort or went to school in a hurricane zone, among many other hurricane related events, you need Internal Revenue Service Publication 4492.

A host of federal income tax benefits, designed to help ease the financial burden caused by the most devastating hurricane season on record, have been compiled and published in the new IRS Publication 4492 "Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma".

Not every taxpayer eligible for hurricane related tax relief is eligible for all hurricane related tax relief provisions, but there are numerous tax relief scenarios. Chances are, you will need a tax professional to decipher the details and to make sure you obtain all the benefits for which you qualify.

Among them are many largely under reported benefits. For example:

- If you housed people displaced by Hurricane Katrina for 60 days or more you can claim an additional exemption of \$500 for each person up to a maximum of \$2,000. Exemptions reduce your income against which taxes are paid.
- If your 2005 earned income is less than your 2004 earned income you can elect to use your 2004 earned income to figure your earned income tax credit and additional child tax credit for 2005 if your main home was in designated hurricane zones. A tax credit reduces dollar-for-dollar the amount of tax you owe.
- Certain IRA and qualified retirement plans tapped for qualified hurricane-related distributions (withdrawals) of up to \$100,000 -- say to rebuild a home or fix damage -- are not subject to the additional 10 percent tax (or the additional 25 percent tax for some distributions from Simple IRAs) otherwise levied against early distributions.

Publication 4492 details a host of qualifiers, beginning with

geographic areas affected by three hurricanes. Benefits can vary by location and do not always include an entire federally declared disaster area. For example, when President Bush declared a Hurricane Katrina disaster area it included the entire states of Alabama, Florida, Louisiana and Mississippi. A disaster area designation is one qualifier for certain tax benefits.

However, IRS also designates as a "Katrina Covered Disaster Area" all parishes in Louisiana, all counties in Mississippi, but only 22 counties in Alabama and 11 counties in Florida. A covered disaster area is another qualifier for benefits.

A third geographic qualifier is the Gulf Opportunity or "GO" Zones, core disaster areas where residents are eligible for Federal Emergency Management Agency assistance. The Katrina GO Zone includes 12 Alabama counties, 31 Louisiana parishes and 49 Mississippi counties.

IRS has established similar covered disaster areas and GO Zones for Hurricanes Wilma and Rita. The covered areas and zones alone are enough to warrant bringing in professional tax return preparation help.

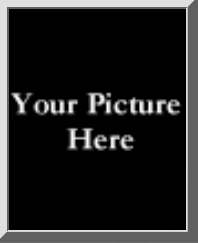
As well as those who housed residents displaced by hurricanes, you are generally eligible for tax benefits if your home is in a qualified area, but also if your estate or trust-related tax records are maintained in a qualifying area or if you work at assisting in the relief activities in a qualifying area.

Finally, anyone visiting a county or parish in the Hurricane Katrina or Rita qualifying areas, who was injured or killed (or the estate of someone killed) as a result of the hurricanes, is considered an affected taxpayer who may be eligible for certain tax benefits.

Anyone using hurricane related tax benefits are advised to write the assigned disaster designation, i.e. "Hurricane Katrina" in red ink at the top of any form or document filed with the IRS to assure the return is recognized as such.

Hurricane benefit related assistance is also available from the IRS at 1(866) 562-5227.

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# REAL ESTATE Update

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## Leaving Town? Securing Your Home While You're Gone

By Phoebe Chongchua



It's only March, but not too soon to start thinking about your summer vacation plans. For many people that means relaxing, fun-filled trips away from everyday routines. But it can also mean being gone from your home for an extended period of time, which has one reader asking, "What are recommendations for the best way to safely and efficiently close down a home for several months at a time?"

Even if you live in a gated community, leaving your home vacant for an extended period of time can be a huge risk, a costly lesson and an emotional heartache. So the best way to close down a home is to make it look like it is being lived in daily, even though you're away.

Here are some security tips compiled from insurance companies, homeowners and law enforcement agencies.

- Stop all deliveries such as mail and newspapers -- this is a very simple thing to do, but it is frequently overlooked by homeowners. When they're gone papers pile up indicating that no one has been home for a while.
- Set indoor and outdoor lights and even TVs on timers to come on and light up rooms of your home and exterior surroundings. Nothing says nobody is home like a dark house. A television or radio that's set to come on periodically makes anyone lurking around think that someone is home.
- Turn down the telephone ringer on your phone and the volume on your answering machine.
- Unplug automatic garage door openers. Burglars can sometimes figure out the code and gain easy access to your home. Also lock any doors from the garage that give access to the house.

- Do not close all the blinds, shutters or curtains; leaving them partially open gives an everyday-lived-in look.
- If you have a willing neighbor, ask him to occasionally park in your driveway. Burglars will often survey a home at different times and on different days to study traffic patterns.
- Keep your landscaped trimmed back. Overgrown trees and shrubs are not only a fire hazard but also a great hiding spot for burglars. While you're gone have a gardener maintain the landscape.
- Install extra safety fastening devices on sliding doors, windows and other openings.
- Use your security system. If you don't have one, buy one. A good security alarm system that is connected to a dispatch center usually will qualify you for a discount on your homeowner's insurance.
- Put a "beware of dog" sign on your fence; even if you don't have a dog, this can be a good deterrent.
- Never leave a key under the mat, in a nearby planter, etc. -- or any other common, well-known hiding places. Many burglars don't have to force entry into a home; instead they enter through open/unlocked doors and windows or even with a key, if it's left out for them!

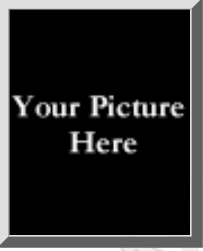
The vital element to keeping your home burglar proof is making it as difficult as possible to break into. Burglars look for easy targets -- leaving a home unattended for a long period of time can put your house in the easy-target category. However, if you take precautions to secure your home before you leave, you'll have greater success keeping a burglar out of your house.

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March 2006

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# REAL ESTATE *Update*

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# March Real Estate Update

## Mortgage Rates Ease

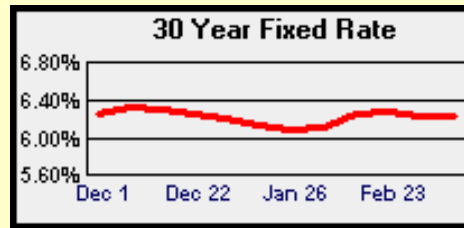
In Freddie Mac's Primary Mortgage

Market Survey the 30-year fixed-rate mortgage (FRM) averaged 6.26 percent, with an average 0.6 point, for the week ending February 23, 2006. Last year at this time, the 30-year FRM averaged 5.69 percent.

"Tame core inflation figures and market confidence that the Fed will continue to keep inflation low kept mortgage rates in check," said Frank Nothaft, Freddie Mac vice president and chief economist. "Over the long term, we expect mortgage rates will bounce back and forth a bit, remaining near current

## Mortgage Rates

Source: Realty Times



U.S. averages as of February 23, 2006:

**30 yr. fixed: 6.26%**  
**15 yr. fixed: 5.89%**  
**1 yr. adj: 5.32%**

## Remodel Boom Seen Continuing

When it comes to



remodeling, the Baby Boom generation will keep on booming. And they'll be followed by spendthrifts known as GenXers.

"Boomers aren't done in terms of remodeling activity," said William Apgar, a former federal housing official who is now senior scholar at Harvard's Joint Center for Housing Studies. Normally, spending on remodeling tends to fall off when home owners reach age 50. And by age 70, they're down to "doing only basic stuff," Apgar told a press briefing.

But the huge Baby Boom generation, members of which begin turning 60 this year, have been spending twice as much as the 50 to 70-year olds that have come before them, he pointed out. And there's no reason to indicate they are likely to stop. Boomers "are outspending their predecessors, and that's likely to continue," the former FHA Commissioner said. "And when that generation finally does begin to tail off, pretty active GenXrs are coming right behind them. So there's not going to be any substantial fall off in remodeling activity far into the future."

Despite the recent refi booms, owners still have \$10 trillion in equity left in their homes, and they'll spend lots of it on their houses in an attempt to keep up with the Joneses.

As home prices rise, owners want to improve the value of their real estate. They'll want larger homes and better features as they try to keep up with the new houses that are being built bigger and better.

## Conquer Closet Woes Before You Move In



Whether you have

the smaller closets of an older home or the spacious storage areas of a newer house, it's important to use the space wisely. Here are a few tips for strategic storing:

- Before you put hanger to rod, assess whether you really need or wear everything you own.
- Write down what you have and take it to a closet-design company or a home improvement store. It's easier to buy what you need if you can see all the options and match them to your clothes.
- Choose a flexible system. Lots of bulky sweaters? Shelves may serve you best. Add a second, lower bar to take advantage of that unused space.

## Give Your Kitchen A Boost When Selling

There are ways to



make your kitchen sparkle before you put your home on the market. Repair leaky faucets and remove stains from the kitchen counter and sink. Clean the interior of your oven and dishwasher, as someone is sure to open them and dirty appliances can convey an impression that will extend to the rest of the house.

"Before taking out walls or committing a lot of money, you have to ask, does it need a facelift or major surgery," said Jason Feldman, director of style, innovation, and design for Home Depot. "There's no point in replacing cabinets or making structural changes if all that's needed are a few cosmetic improvements."

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# 'Good Deal' Matter of Interpretation

By M. Anthony Carr



Everybody's looking for a good deal. Sellers want the highest price possible and buyers want to buy a house below asking price. They both want the same thing -- a good deal. Following years of a sellers market, many consumers are facing a more normalized market across the country. Particularly, in large metropolitan markets, the normalizing of the market has created a wait and see attitude on purchasing or selling real estate.

For the wise investor/home buyer, the cautionary phrase of "wait to buy real estate" should give way to "buy real estate then wait." One of the keys to savvy real estate investing -- whether for personal use or wealth building -- is timing. In a seller's market, every buyer who was serious about getting into a home, knew it was time for bidding up. Getting the best price with the best terms was not a winnable strategy for so many buyers. The name of the game was winning the house.

Interestingly, buyers had no problem bidding up a house \$25,000, \$50,000, even \$100,000 to "win" the house in the Washington, D.C. market just a few months ago. And as prices moved upwards at a clip of 20 percent per year, more buyers jumped in, buying high in hopes of gaining a lot of money in a matter of weeks and months.

Now that price escalations have simmered to a normal pace -- the buyers have stopped the bidding frenzy -- which is exactly when the smart buyer should enter the field.

In a buyer's market, buyers must understand that those who negotiate win, and win big. If you have a house on the market for \$420,000 and you want to get it for \$399,000 the only thing stopping you is your personal will. If you think you want it for that amount -- then write up an offer for that amount and let the negotiation begin. In addition, while you're offering less money, toss in a home/radon/roof inspection, \$5,000 in closing costs and the hot tub in the backyard.

Meanwhile, on the other side of the fence, sellers must learn a lesson early in a normalizing market -- it's time to price ahead of the market (that means get ahead of the price reduction

curve).

Pricing ahead of the market, makes many sellers cringe, thinking they are "losing" money on their house. This attitude makes me shake my head in wonderment when I think about it. Looking over average sales prices as if it were a stock quote, homeowners will talk about how they have "lost" money on their home. The discussion goes something like this:

"I lost \$30,000 on my house. It's only worth \$410,000 now."

"Really? So, you bought it for \$440,000?"

"No -- but my neighbor's house sold for \$440,000 last fall and now the same model is on the market for \$410,000. I have the same model, so I must have lost \$30,000."

"I thought you bought your house five years ago for \$220,000?"

"Yep."

"So where did you lose the \$30,000? Sounds to me like you've gained \$190,000."

It's all a matter of perspective. If you've gained \$190,000 and you want to move up (or down) the level market is the time to get off the fence and make the good financial decision. Though your house price may have dropped -- so has the house price of the move up property.

Sellers should also heed a bit of advice that all agents know and understand -- the first offer is usually the best offer. As a seller, if the price really looks low -- flow with it. Counteroffer. Make the terms and price work. Obviously, beware of bottom feeders - those who are looking for desperate sellers; however, a price fluctuation of 5 percent is not that bad.

The problem for home sellers is the psychological challenge they face, realizing that 5 percent may represent \$20,000 dollars. If you're moving up, though, keep in mind the \$20,000 "loss" on your sale, may be leveled out by the \$20,000 "gain" on the move up property.

The hot market of 2006 has begun. The economy is booming, inventory is up, prices have leveled, interest rates are still historically low -- what are you waiting for?

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# Decorating in Small Spaces

By Debbie L. Sklar



Sometimes smaller is better, especially when it comes to space. Think cozy and quaint rather than throwing your hands up in the air and screaming: "Oh it's so cramped! I give up!"

There's no need to be discouraged. In fact, decorating a small space can be a fun challenge that requires you to be more innovative than ever.

Start out by acknowledging the many advantages inherent to small homes. Small rooms generally require fewer furnishings and accessories, so your decorating budget can get you a little further. Small rooms can also inspire you to do something we all need to do: get rid of clutter.

Since storage space in small dwellings is likely limited, getting rid of unnecessary items is a must. However, people living in larger homes with plenty of storage can more easily fall into the pack rat mode, too. And of course, small spaces can be quite inviting, that is if you decorate consciously and creatively.

So, for each area of your home, you might want to consider these ideas to help you maximize your space as well as your decorating dollar:

- **Kitchen:** Use over-the-cabinets space for storage of little-used items or decorative display of collectibles; hang pots from a rack suspended from your ceiling; open up cabinet and drawer space by placing cooking utensils and spices in baskets, crystal bowls or ceramic pitchers.
- **Living room:** Paint the walls a light hue and use sheer curtains to invite in the sunlight; instead of a coffee table, use an ottoman with a tray on top to hold drinks and prop up your feet (also for extra seating in a pinch); create tables that do double duty as extra storage by stacking suitcases, using an old trunk, or by stacking two old soda or wine crates and adding a glass top.
- **Bedroom:** If there's ample space in your closet, move your dresser inside to free up main area floor space; instead of night tables, place a small, wall-mounted shelf on each side of the bed to hold nighttime needs like a small lamp; if you're low on closet space, use the space under your bed to store out-of-season clothing; if you need an armoire but can't

afford one, make or buy an inexpensive bookshelf and attach curtains (or canvas) to cover up the clothing but still offer easy access.

- **Bathroom:** Use an over-the-commode shelving unit to hold essentials if cabinet space is sparse; use several decorative hooks instead of a towel bar and you can hang up more towels (and robes) in a small wall area.

Another vital rule in small space decorating to keep in mind is that dark colors make things appear smaller and light colors make things appear bigger. If you're tired of your white walls, a taupe or sand color is a great substitute. These aren't gleaming, but they also are not dark enough to close a room in, making it longer than it is.

You can accent -- that is add a little color -- with candles, pictures, paintings or pillows, or brighten things up with curtains. If you have a lot of windows to dress, stick to a neutral color because a dark color can have the same effect as painting your walls.

Also, multi-function pieces of furniture are perfect for small spaces. For example, try a loft bed, which puts your bed off the floor. If it's high up, it opens up the floor space for other purposes. A couch or desk can fit easily underneath, too for more space saving. If you don't have enough space for a bed, or you don't like sleeping in high places, a futon or pull out couch can act as a couch by day and your bed at night.

Need more storage space? A storage chest can easily double as a coffee table. Hanging shoe racks are also a way to create more space in a closet. Toiletries can hang, too, creating more counter space for other bathroom supplies. To create the illusion of a bigger space, try hanging a large mirror reflecting a window from across the room. It instantly makes the space look bigger.

Finally, it is important to find the style that you like. Whether it's Modern, Victorian or Country French, the style should reflect your personality. After all, you're the one who is going to be living there. With a little creativity, you can make living in a small space as comfortable as living in a castle.

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# Online Appraising: A Thing of Value to Whom?

By Peter G. Miller



Looking online at the value of real estate and the process has been illuminating -- arguably not accurate or especially useful, just illuminating.

If you want a satellite photo of a home, there's no shortage of locations that can provide such art, much of which is excellent. If you want a street map, that too is easily found online.

But when it comes to figuring out the market value of a property -- the magic question of how much to pay or how much to accept -- a recent look at online valuations was wildly disappointing.

- For one property I checked the value is some \$90,000 below the price paid last summer. Everyone seems to know the number of baths as well as the size of the property, but no computer seems able to fully value a home that backs up to creek or has a hot tub on the deck. For this, apparently, you need human eyes.

- Then there is the Cape Cod which sold last year for \$485,000 and now, says the computer, is worth a mere \$429,000. This would no doubt amaze the new owner, an individual who has beautifully remodeled the house, landscaped the entire property and lives in a ZIP code where typical home prices increased \$95,000 last year.

- Lastly we come to a home which is allegedly worth \$509,000. This seems unlikely in a ZIP code area where home values rose by an average of \$68,000 in 2005 and nearby homes on the same street have been selling for \$550,000 and up.

As much as computers are to be applauded, the invisible hand of automated valuations seems remarkably unsteady. Suggesting for one property a range of possible prices from \$317,580 to \$508,849 is useless; no seller will accept the lowest figure and no buyer will be enticed by the highest.

While it's entirely possible to have statistics regarding past sales, lot sizes, property taxes and other objective measures, when it comes to valuations I'll stick with local brokers and appraisers.

This is not to say at some distant point in the future online valuations won't improve. Software and formulas will undoubtedly progress and online sites will have access to more

sale information on a more-immediate basis. In addition, public feedback will be encouraged as a correcting mechanism. This is all to the good.

Still, when it comes to buying and selling real estate I remain pro-human.

The issue is not that the Internet lacks value or utility, rather there are some things beyond even the powers of computerdom.

How do you value a view? Sounds silly, but if you look at the photos for 100 listings it's instantly obvious that some properties are more attractive and valuable than others -- at least to people.

To make matters more complex, whatever it is that constitutes "value" in real estate is a mix that differs among individuals. Not all homes with four bedrooms and 2.5 baths are created equal, thus the rush to buy some homes and the hurry to get away from others.

Valuations are part numbers and part mystery. I have little doubt that one day computers and the Internet will be able to capture the math fairly well, but I see no hope of electronically grabbing the magic.

At this point someone will mention the fabled stories of people buying homes from online photos. Such stories are no doubt true -- but in the statistical context of millions of home sales such things will happen. It's equally true that among billions of people some have six toes on one foot. People who buy homes from online photos are not evidence of a trend, they merely prove the existence of statistical improbability.

As dull and boring as it may seem, there's no substitute for physically looking at real estate. The value of real estate to buyers and sellers -- which may be different than the value to lenders and tax collectors -- is best established by walking through homes and seeing the neighborhood.

Ask yourself: As a buyer would you pay more for a home just because it has been assigned a computerized value? Would you accept less as an owner because a computer has somehow determined a sale price? Or in either case would you rely on your own sense of value, a sense enhanced by physically examining many homes, speaking with local brokers and engaging experienced appraisers?

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# "Cash-out" Refinancings Are Nearing an All-time Record

By Kenneth R. Harney



American homeowners are on the verge of setting a new record in a key mortgage market measure: Cash-out refinancings.

The latest quarterly study by mortgage market giant Freddie Mac found that four out of every five homeowners are pulling out extra money -- often tens of thousands of dollars -- when they refinance their existing loans.

The 80 percent figure is the second highest rate on record, according to Freddie Mac chief economist Frank Nothaft, and is just one point below the record rate of 81 percent set in mid-2000. Equally significant, the rate of cash-outs soared by 24 percentage points in the past 12 months alone -- up from 56 percent in the comparable fourth quarter period of 2004 to fourth quarter 2005.

Moreover, cash-out refis are booming in spite of a half percentage point increase in 30-year mortgage interest rates during the past year. Normally refinancings decline when rates go up, but they accounted for nearly half of all mortgage applications during the fourth quarter of 2005. Most people who did cash-outs last quarter actually increased the note rate on their loans, rather than decreasing them, which is the customary purpose of a refinance.

What's going on here? Are Americans loading on even heavier, potentially dangerous debt loads? To the contrary, says Nothaft. They may in fact be substituting lower cost debt for higher cost debt -- a heads-up financial management move.

Freddie Mac defines a cash-out as any refinancing where the principal amount on the new loan is at least five percent higher than the loan being replaced. In recent years roughly a third to 40 percent of all refinancers pulled out additional cash. For example, in the second quarter of 2003, just 33 percent of

refinancers did cash-outs. In the first quarter of 2004, 42 percent of refis were cash-outs.

So why are cash-outs at near record levels now? Nothaft says the key factor has been the 12-month string of short-term interest rate hikes by the Federal Reserve Board. Those increases -- which affect the prime bank rate directly -- have had the side effect of pushing up the cost of home equity credit lines and second mortgages.

Home equity rates are usually linked to the bank prime, and are readjusted by the lender when short-term rates rise. The prime is now at 7.5 percent. Most fully-indexed home equity rates are set at prime-plus-one percent or even higher.

That means that equity credit line borrowers are facing rates of 8.5 percent or more once their teaser rate introductory periods expire. Worse yet, those rates could climb higher in the months ahead if the Fed ratchets them up further.

What's the alternative to floating rate credit lines? You guessed it: fixed-rate 30-year primary mortgages which last week averaged 6.25 percent. Evidently, according to Nothaft, large numbers of credit line borrowers are throwing in the towel -- refinancing their primary mortgages, cashing out additional money, and paying off their floating-rate debt.

Rather than irresponsible financial behavior, cash-outs in the present circumstances look like a way to save money and nail down low fixed interest rates. Also, for homeowners who need capital for a major expense -- say a kitchen renovation or a downpayment on a second home -- a cash-out refi at 6.25 percent may well be the most cost-effective way to obtain that money. And thanks to high real estate appreciation rates in many parts of the country during the last several years, homeowners have sizable equity cushions to borrow against.

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# Ten Tips For First-Time Buyers

By Realty Times Staff



Each year more than 40 percent of all homes are purchased by first-time buyers according to the National Association of Realtors, a percentage which should offer some comfort if you're about to buy a first home. Others have done it, others are doing it, and you can too.

But like most things, there are ways to make the process easier. Here in capsule form, are 10 baseline strategies to make that first purchase a good experience.

- Think credit. Poor credit will make you a bigger risk in lender eyes -- and more risk means higher rates and steeper monthly mortgage costs. Make a point of paying credit card bills, auto loans, rent, and other payments on time, all the time, and in full.
- Consider taxes. When you buy a home mortgage interest and property taxes are generally deductible from income taxes. This means while monthly housing costs may be larger when you own than when you rent, what you save in taxes can make up some or all of the difference. For details, speak with a tax professional.
- Know the broker's role. Real estate brokers are at the center of most property transactions. It's important for you to know what a broker does, who is represented, and how the brokerage system works.
- Consider what location will work best for you. Look at your needs, the needs of household members, and your preferences in terms of commuting, shopping, recreation, and other factors that are important to you.
- Plan on getting a home inspection as part of any offer you make. A professional inspection can help you understand

the condition of the property and the repair bills you are likely to face in the next few years.

- Look into the financing process as soon as possible. Get pre-approved so that you generally know how much you can borrow, what you can afford, and so owners will see you as a serious buyer.
- Save. You'll need money for a down payment, closing costs, moving, and other expenses. Put off trips and luxuries until after you're in your new home.
- Examine the different financial options which are open to you -- consider FHA, VA, and state-backed loan programs which require little down and have liberal qualification standards.
- Look for gifts and grants. According to the National Association of Realtors, 22 percent of all first time buyers receive gifts from relatives and friends. Some companies offer grants and other incentives to employees who are buying a first home. Community groups may also have programs and financing in place for first-time buyers, while the federal government has established special programs for teachers and police officers.
- Start now, take your time, and ask as many questions as you like. Being a first-time home buyer is challenging, but millions of people do it each year -- and you can too.

Have questions?

I'm here to help, and I can provide the information and materials you need. Contact me today.

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# Hurricane Spawned Tax Relief: IRS Publication 4492

By Broderick Perkins



If you housed anyone displaced by Hurricane Katrina, if you were displaced by one of several hurricanes, if your home was in one of several hurricane zones, if you donated money, food, or car driving services for the relief effort or went to school in a hurricane zone, among many other hurricane related events, you need Internal Revenue Service Publication 4492.

A host of federal income tax benefits, designed to help ease the financial burden caused by the most devastating hurricane season on record, have been compiled and published in the new IRS Publication 4492 "Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma".

Not every taxpayer eligible for hurricane related tax relief is eligible for all hurricane related tax relief provisions, but there are numerous tax relief scenarios. Chances are, you will need a tax professional to decipher the details and to make sure you obtain all the benefits for which you qualify.

Among them are many largely under reported benefits.

For example:

- If you housed people displaced by Hurricane Katrina for 60 days or more you can claim an additional exemption of \$500 for each person up to a maximum of \$2,000. Exemptions reduce your income against which taxes are paid.
- If your 2005 earned income is less than your 2004 earned income you can elect to use your 2004 earned income to figure your earned income tax credit and additional child tax credit for 2005 if your main home was in designated hurricane zones. A tax credit reduces dollar-for-dollar the amount of tax you owe.
- Certain IRA and qualified retirement plans tapped for qualified hurricane-related distributions (withdrawals) of up to \$100,000 -- say to rebuild a home or fix damage -- are not subject to the additional 10 percent tax (or the additional 25 percent tax for some distributions from Simple IRAs) otherwise levied against early distributions.

Publication 4492 details a host of qualifiers, beginning with

geographic areas affected by three hurricanes. Benefits can vary by location and do not always include an entire federally declared disaster area. For example, when President Bush declared a Hurricane Katrina disaster area it included the entire states of Alabama, Florida, Louisiana and Mississippi. A disaster area designation is one qualifier for certain tax benefits.

However, IRS also designates as a "Katrina Covered Disaster Area" all parishes in Louisiana, all counties in Mississippi, but only 22 counties in Alabama and 11 counties in Florida. A covered disaster area is another qualifier for benefits.

A third geographic qualifier is the Gulf Opportunity or "GO" Zones, core disaster areas where residents are eligible for Federal Emergency Management Agency assistance. The Katrina GO Zone includes 12 Alabama counties, 31 Louisiana parishes and 49 Mississippi counties.

IRS has established similar covered disaster areas and GO Zones for Hurricanes Wilma and Rita. The covered areas and zones alone are enough to warrant bringing in professional tax return preparation help.

As well as those who housed residents displaced by hurricanes, you are generally eligible for tax benefits if your home is in a qualified area, but also if your estate or trust-related tax records are maintained in a qualifying area or if you work at assisting in the relief activities in a qualifying area.

Finally, anyone visiting a county or parish in the Hurricane Katrina or Rita qualifying areas, who was injured or killed (or the estate of someone killed) as a result of the hurricanes, is considered an affected taxpayer who may be eligible for certain tax benefits.

Anyone using hurricane related tax benefits are advised to write the assigned disaster designation, i.e. "Hurricane Katrina" in red ink at the top of any form or document filed with the IRS to assure the return is recognized as such.

Hurricane benefit related assistance is also available from the IRS at 1(866) 562-5227.

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# Leaving Town? Securing Your Home While You're Gone

By Phoebe Chongchua



It's only March, but not too soon to start thinking about your summer vacation plans. For many people that means relaxing, fun-filled trips away from everyday routines. But it can also mean being gone from your home for an extended period of time, which has one reader asking, "What are recommendations for the best way to safely and efficiently close down a home for several months at a time?"

Even if you live in a gated community, leaving your home vacant for an extended period of time can be a huge risk, a costly lesson and an emotional heartache. So the best way to close down a home is to make it look like it is being lived in daily, even though you're away.

Here are some security tips compiled from insurance companies, homeowners and law enforcement agencies.

- Stop all deliveries such as mail and newspapers -- this is a very simple thing to do, but it is frequently overlooked by homeowners. When they're gone papers pile up indicating that no one has been home for a while.
- Set indoor and outdoor lights and even TVs on timers to come on and light up rooms of your home and exterior surroundings. Nothing says nobody is home like a dark house. A television or radio that's set to come on periodically makes anyone lurking around think that someone is home.
- Turn down the telephone ringer on your phone and the volume on your answering machine.
- Unplug automatic garage door openers. Burglars can sometimes figure out the code and gain easy access to your home. Also lock any doors from the garage that give access to the house.

- Do not close all the blinds, shutters or curtains; leaving them partially open gives an everyday-lived-in look.
- If you have a willing neighbor, ask him to occasionally park in your driveway. Burglars will often survey a home at different times and on different days to study traffic patterns.
- Keep your landscaped trimmed back. Overgrown trees and shrubs are not only a fire hazard but also a great hiding spot for burglars. While you're gone have a gardener maintain the landscape.
- Install extra safety fastening devices on sliding doors, windows and other openings.
- Use your security system. If you don't have one, buy one. A good security alarm system that is connected to a dispatch center usually will qualify you for a discount on your homeowner's insurance.
- Put a "beware of dog" sign on your fence; even if you don't have a dog, this can be a good deterrent.
- Never leave a key under the mat, in a nearby planter, etc. -- or any other common, well-known hiding places. Many burglars don't have to force entry into a home; instead they enter through open/unlocked doors and windows or even with a key, if it's left out for them!

The vital element to keeping your home burglar proof is making it as difficult as possible to break into. Burglars look for easy targets -- leaving a home unattended for a long period of time can put your house in the easy-target category. However, if you take precautions to secure your home before you leave, you'll have greater success keeping a burglar out of your house.

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