



[www.ArizonaforCanadians.com](http://www.ArizonaforCanadians.com)

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# Volume II Edition I

Why This is a Once in a Lifetime Opportunity for Investors

## In This Edition

How to make great investment returns in a soft market  
U.S. Financing for Canadians  
Property Management

The challenges facing the US housing market have created a tremendous investment opportunity for Canadians. By buying the right homes, in the right communities, for the right price, we have been able take advantage of the strong rental market, double digit cap rates and tremendous future appreciation in the heavily discounted Arizona real estate market.

## Why Arizona

Arizona has seen the price of real estate drop over 50% since the peak in June 2006. Contrast that to the historical average annual increase of 7% per year from 1980 until 2007 and this market bottom has no where to go but up over the medium to long term.

Baby boomers are poised to retire in large number over the next few years, and Arizona is a top destination for them. Boomers are looking for great weather, golf, shopping, dining, and beautiful surroundings and Arizona offers them that in spades. These same factors make Arizona a popular destination for the 25-40 demographic and one of the world's top vacation destination. The Phoenix area had the highest population growth in the U.S. in 2005 and 2007. All of these factors help to position Arizona real estate as an investment with tremendous upside.

**A recent Forbes magazine article suggested that, "Good affordability rates and a surging job market suggest that once Phoenix bottoms out, price growth will be strong. This is due to the fact that the city has one of the strongest economies in the U.S. right now and the large number of companies in the automation and green technology sector, as well as health care and education that employ a highly educated workforce. Phoenix is also home to four professional sports teams, numerous major league baseball spring training facilities, the Barrett Jackson car auction, Arizona State University as well as the University of Phoenix.**

The cost of home ownership in Arizona is substantially less than the cost of home ownership in many other Sunbelt states. Arizona boasts low property taxes and home insurance rates. In Florida, high property taxes and expensive, hard to obtain property insurance have made that state a less desirable destination for investors, snowbirds and young families looking to relocate. The migration pattern in the U.S. is from the north east to the south west and Arizona is leading the way.

### **What to Buy**

The primary objective of our approach is to achieve the highest potential return on investment while managing risk as much as possible. Acquisition strategies include buying property through MLS with Bank Owned (REO) properties, Pre-approved short sales, fully renovated homes, as well as wholesale opportunities and Foreclosure Auctions.

### **Which are the best communities to buy in?**

The best communities to buy in have low crime rates (see our link to Phoenix area crime statistics below), newer construction and are centrally located. The location of a rental property is doubly important because it should be close to jobs or an easy commute. When gas hit \$4.00 a gallon here in 2008, home rentals in outlying areas dried up.

The highest demand areas for renters are currently Anthem, North Phoenix, Sun City, Glendale, Peoria, Chandler, Gilbert and Tempe. They each represent different price points, rental rates and appreciation opportunities, but all should rent well and draw good tenants.

**Click on this link for [Phoenix area crime stats](#)**

### **Market Opportunity**

The Arizona rental market is being driven by the large number of “Strategic Defaults” taking place. These defaults are the result of homeowners who bought homes in the 2002-2008 time period and have significant negative equity in their homes. They may have purchased their home near the peak of the market and their homes have lost more than 50% of its value. These people have decided that it is better to walk away from their home and rent a similar home in the same community for much less than their current mortgage payment. Often families, these renters need a 3-4 bedroom house and due to damaged credit may be renters for several years to come.

Once their credit is repaired, they will want to get back into home ownership which we believe will result in a significant increase in home prices in 5-7 years as home ownership rates return to historical norms. Many of these renters may also be interested in paying for an option to buy the home they are renting for a pre-determined price at a future date. The investor receives a significant deposit for this option, above market rent, and an exit strategy with a built in profit. The renter / purchaser has a high incentive to take care of the property and purchase the home or they will lose their deposit.

In addition to the strong rental market, there is also an opportunity to purchase distressed homes at the daily bank auctions, fix them up and sell them for a profit.

In general, it is possible to purchase rental properties in good neighborhoods starting as low as \$75,000 and homes purchased for less than \$175,000 will often generate monthly rent of about 1% of the purchase price making for strong positive cash flow.

The vacancy rates in the Phoenix area vary, but we have been told by one of our property management companies that they have less than 2% vacancy in the 150+ properties that they manage.

### **Market Summary for the Beginning of February**

January gave us a lot to think about. Although pricing was generally quite weak, most indicators were giving us very positive signals of better times ahead. Not in all areas or price ranges however. Let us look at some of the key measures:

**Sales:** We usually expect to see very low sales volumes in January and after a very busy December, we saw sales across all areas and types total 6,522, down 21.8% month to month. However this total is 15.0% higher than for January 2010, so it's still a fairly strong performance.

**Pending Sales:** Rose 19.4% from January 1 to February 1, an unusually large increase suggesting strengthening demand and a busy buying season ahead. The total of 10,565 is 0.8% lower than 2010 when we were heading into the expiry of the tax credit at the end of April.

**Active Listings:** These usually rise strongly between January 1 and February 1 as people gear up for the spring, but in 2011 this number declined by 1.8%. This weakening of supply is somewhat surprising as well as welcome to sellers.

**Sales Pricing:** Dropped from \$83.29 per sq. ft. on January 1 to a low point of \$80.64 on January 21, recovering slightly to end at \$81.44 on February 1

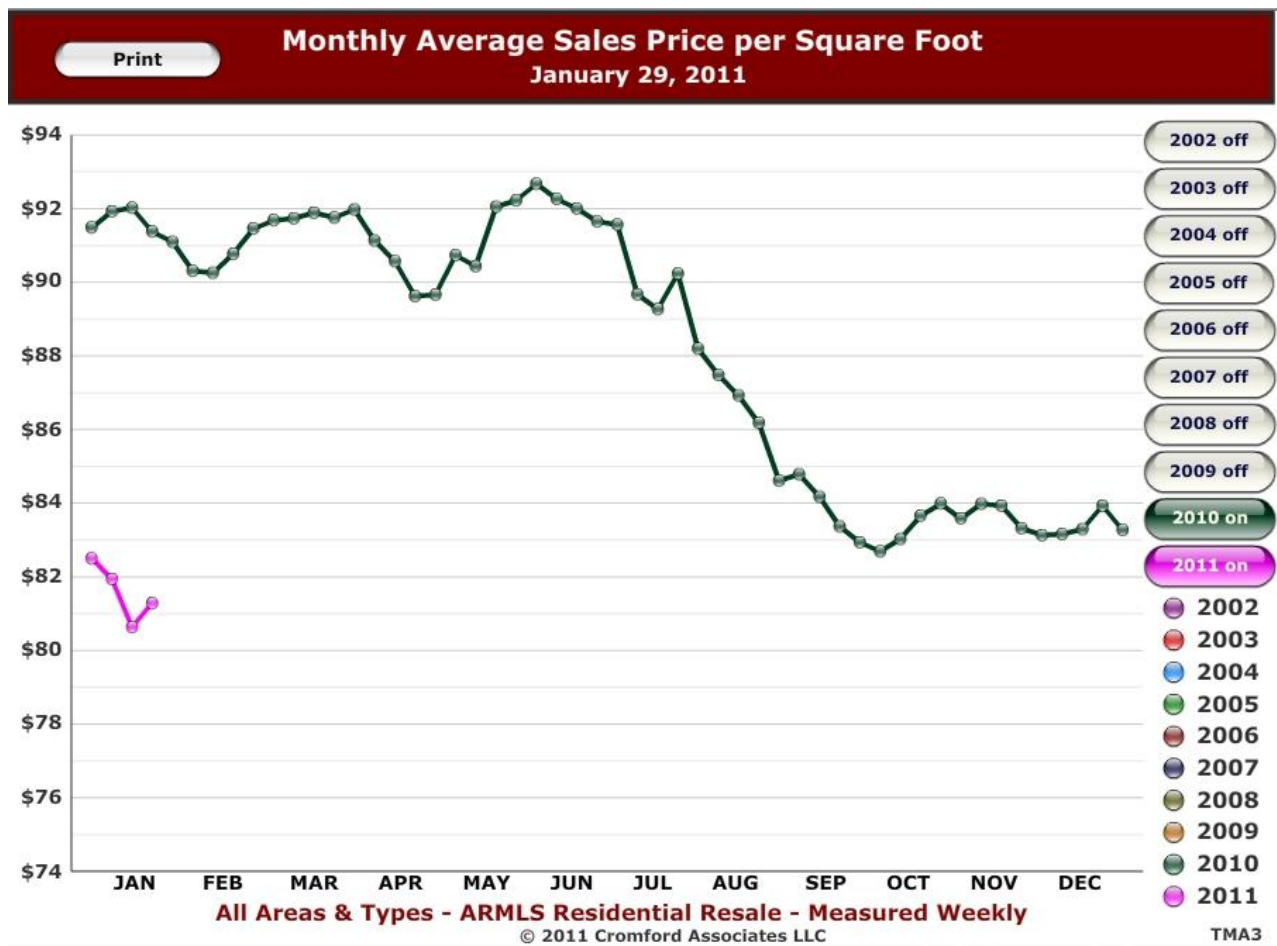
Segmenting by price range, we still see the greatest weakness below \$100,000 where supply is very high and additional REO supply may be looming as trustees process the backlog from Bank of America's hiatus last quarter. Even here the situation is much improved because buying activity has accelerated as the pricing has fallen. The strongest price range is currently \$400,000 to \$800,000 where sales prices have stabilized and even moved very slightly higher over the last four months when measured by price per sq. ft. Activity is still below normal at this level, so any recovery is very fragile.

After the unusually low numbers in November and December, foreclosures reverted to more "normal" levels with 6,783 new notices and 4,585 trustee deeds recorded. The net effect was to reduce the number of pending foreclosures to fewer than 40,000 for the first time since March 2009. REO inventory is slightly down compared with one month ago and back down to the level of mid-September 2010.

The period from June to October 2010 was one of unusual demand weakness but that is just a memory now. The pricing change it caused is now with us. We dropped from around \$90 per sq. ft. last spring to around \$80 per sq. ft. now, but this fall was signalled well in advance and it was easy to predict. There are no obvious market pressures that would cause this overall \$/SF number to drop much further despite variations from area to area.

REO pricing remains weak (because so many of the sales take place in the weakest sector of the market) and short sale pricing also looks poor. However normal pricing is holding up quite well and as we leave January we should see normal sales gain market share which helps to stabilize the price averages. We do not anticipate any significant average price gains just yet, but at least it's nice to report that we don't anticipate any further major falls over the near term.

Information provided by the Cromford Report



## U.S. Financing Options for Canadians

With record low interest rates still hanging around, many Canadian buyers may want to consider financing a home with a U.S. lender. We have worked very hard to establish relationships with U.S. lenders and as a result have several financing options for our clients.

### Financing for a second home or vacation rental

We have several options for financing for this type of home use where a second home is defined as used by the owners at least 1 week per year and can be rented out the rest of the time.

Mortgage terms generally require 25-30% down with rates currently as low as 5% for a 30 year fixed rate fully amortized loan that is completely open to pre-payment with no penalties.

### Investor loans for full time rentals

We have two sources of financing for investors purchasing single family homes to rent out on a full time basis.

The first loan program requires 35% down for a fully amortized 30 year fixed rate loan. The interest rate is currently 6.75%.

The second loan program requires 50% down for a 7 year fixed rate loan based upon a 15 year amortization. The current interest rate is 5.625%

The third loan program is for a Home Equity Line of Credit for up to 50% of the value of the home. The current interest rate is 4% and is based upon prime minus .75%. The term of the loan is five years. The loan payments can be interest only or 1.5% of the outstanding loan balance.

## Property Management

There are many property management companies serving the Greater Phoenix area and two that we recommend for full time rental and two for vacation rental. Maureen and I own four rental properties ourselves and never have to find, screen or deal with any tenant issues. We feel strongly that a good property manager is worth their weight in gold and is one the keys to a successful investment.

A good property management company will:

- Advertise and promote your property through a combination of their own website, community newspapers and possibly the MLS. They may also charge different fees depending on the level of exposure you require.
- Fix up the property if so required. Of course it the owners decision who they use but often the property management company can things done at a lower cost.
- They will screen tenants including credit checks and references.
- Negotiate a lease on your behalf
- Handle any service issues regarding the property. They will require a repair/maintenance account be setup by the owner with typically \$400 deposited. They will also recommend a threshold (usually about \$200) below which they do not need to contact the owner for approval for repairs. Tenants are also required to put down a damage deposit that is in the neighborhood of one month's rent.
- Typical costs vary but are usually about 10-11% of the rental income for full time rental homes renting in the \$1,000 per month range and less as a percentage for higher rent properties. Vacation rental fees generally run 20-30% of the rental rate depending upon the company used.

Arizona for Canadians has been able to negotiate lower rates for our clients because of the large number of clients we refer. One of the companies we highly recommend offers the following terms and information on their business to our clients:

### **PREFERRED FEE STRUCTURE FOR ARIZONA FOR CANADIANS CUSTOMERS.**

- **\$25 INITIAL ADVERTISING FEE - \$300 FOR FUTURE ADVERTISING**
- **\$600 NEW LEASE FEE**
- **\$50 FLAT MONTHLY MANAGEMENT FEE**
- **\$250 LEASE RENEWAL FEE**
  
- **30 to 45 day average vacancy time**
- **Receiving 80 -110 tenant inquiries per day**
- **Less than 4% vacancy rate!**
- **Online real time statements**
- **Low start up fees and competitive fee structure**
- **Over 12 years in business**