

CRAIN'S

CHICAGO BUSINESS

NEWSPAPER

CHICAGOBUSINESS.COM (THIS ISSUE IN 2 SECTIONS) VOL. 27, NO. 38

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mortgage options multiply

INTEREST-ONLY ARMs ARE LATEST TWIST BY CHUCK GREEN

IN A PITCHING-RICH BASEBALL mecca like Chicago, good thing Pat Boyle is, well, up on arms.

Next month, Mr. Boyle will debut as a sportscaster on Comcast SportsNet Chicago. But before he even utters a final score, Mr. Boyle and his wife Shannon, who recently relocated from Connecticut, had to make a final decision on financing their new home just as interest rates were expected to rise.

"With a younger daughter, we want the downtown experience for a few years before we move to the suburbs," says Mr. Boyle.

Primarily because they plan on remaining in their Ravenswood townhouse for only three years, the Boyles chose a three-year I/O (interest-only) ARM (adjustable rate mortgage)—ideal for those who expect to be in their home no longer than five years. An ARM is a family of mortgages, of which an I/O is an option. An ARM has a lower initial interest rate than a conventional fixed long-term mortgage and lowers monthly payments. An ARM with an I/O can offer a borrower even lower monthly payments or, as experts say, allow a borrower to "live large" as long as the property appreciates while a homeowner remains there.

Due to lower payments with short-term I/O ARMs, says Stephen T. DiMarco, first vice-president and director of mortgage sales at Mid America Bank in Downers Grove, borrowers don't have to sink all their cash into mortgage payments. They also have enough money left to invest or pay off credit cards.

That appeals to Mr. Boyle. "It frees up money to invest in other avenues and it gives you money to put back into your home. I like the flexibility," he says.

"You hear so much about ARMs today because interest-only facilities are married to them. You'll see interest-only options tied to things like three-, five- and seven-year adjustable loans," adds Mr. DiMarco. "With an increasing interest rate, the environment is going to go against you, so you have to figure out if you're going to stay in your home for a while or move."

High home prices are helping fuel interest in I/O ARMs, explains David A. Kasprisin, vice president and Chicago district manager of National City Mortgage. "As home values continue to rise, there's a squeeze on what people are willing to pay on a monthly basis, so they need to come up with more creative ways, like interest only, to get into a property," he says.

According to a recent survey by the Mortgage Bankers Association

(MBA), ARM activity increased ending the week of Aug. 13, making up just over a third of mortgage applications, compared to slightly more than 23% ending the same week last year and up from 19% for 2003. Furthermore, it's forecast to jump to 38% in 2005, says the MBA.

However, Jay Brinkmann, MBA's vice president of research and economics, does not specifically attrib-

ute the increase in ARM mortgage applications to a rise in interest rates, which had fallen to 5.8% as of the end of August after going up to 6.3% in late June.

"Higher interest rates aren't necessarily driving more people into ARMs; it's just that more individuals are pulling out of the fixed-rate market to save a percentage point on their mortgage and high-end home

buyers prefer ARMs because of lower payments," he says.

In any event, I/O ARMs also can be attractive to business people or entrepreneurs, who could be better off putting their money back into their businesses, Mr. DiMarco notes.

"Interest only options make sense because if, for instance, I'm an entrepreneur, the best use of my cash might be in my business. In other words, if I'm operating a business and can get 15% to 20% returns on my capital investments in the business, why shouldn't I divert as much capital to it as possible, or even

address my credit card balance?" Mr. DiMarco asks.

He also says since the real estate market has been strong, "in essence, if the value of my house isn't going to drop substantially, why am I so concerned about paying it off when the principal reduction payments will basically be idle capital? So I've leveraged a property, using interest rates at somewhere in the 30-to-40-year-low range. I'd do that and utilize that capital in my business, or, if I'm not an entrepreneur, in other business endeavors."

But a borrower might not derive



the full benefit of an I/O ARM if he or she remains in their home beyond the period of that option since they're not paying down their loan, notes Mr. Kasprisin.

"You're only paying the interest, so it's a good short-term option—it frees up some cash and lowers your payments. But after the third or fifth year, whichever your term is, you start to lose some upside. Rates can go up after the guaranteed period ends, which can impact a three-year or five-year ARM," he says.

Of course, there's no rule with the I/O ARM against making occasional

payments on the principal, which, when it's financially feasible, Mr. Kasprisin encourages.

"I always recommend making the interest-only payments on the months where that's the only convenient payment to make. But there are certain times when it might be convenient to make principal reductions, maybe with a year end's bonus or commission check that's a little larger than usual, or if

you're a business owner who does most of his or her billing at certain times of the year and have more cash then. You may just make the interest-

includes an additional principal reduction."

It's not a good idea to focus solely on chipping away at the interest, he says.

"You want to lower the amount of principal you owe because that will, in turn, lower the amount of interest we collect on a monthly basis. You want to have the loan balance decline, simply because

we don't know what kind of appreciation rates you might get in future. It's the safe way to hedge your bet," Mr. Kasprisin says.

"As home values continue to rise, there's a squeeze on what people are willing to pay on a monthly basis"

only payment 10 of the 12 months, and in the other two months, make up for that year's principal in one fell swoop—one mortgage payment that

It's a sure bet Mr. Boyle plans on lowering his principal.

"My primary goal is to knock down the line of credit I took out, so that's where any extra money per month will go," he says.

With all their appeal, ARMs have drawbacks as well, says Mr. Kasprisin.

"A home buyer is paying a low rate initially, but, almost always, even if (interest) rates in the economy don't change, that rate will adjust, perhaps to a higher level than the going conventional fixed-rate (loan)," he notes. □

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+ OUT OF PAST FROM PAGE BB10

to a basket design, all the way up to an intricate cross pattern. If you're doing a simple twist or basket, each one of your iron balusters can have that design. Typically, you see a scroll design in an area of an overlook where you have a run of railing. It offers an older look of craftsmanship and durability, a look that suggests it's built to last."

The same feeling is conveyed within kitchens, where Lanco is building custom wooden hoods over ranges in some homes. Hoods are constructed of woods found elsewhere in the same kitchens, such as cherry, maple, hickory or birch, and are lined with stainless steel for a functional, easy-to-clean interior. "Also, on the exterior of the chimney portion of the hood, we're doing a knock-down plaster that provides some of that old-world stucco look," Mr. Langille says.

Lanco has also witnessed a dramatic increase in requests for dens and studies in its homes, and views these as additional opportunities to deliver old-time hand craftsmanship. The builder incorporates built-in bookcases and coffered beam ceilings, using cherry and other darker wood tones to impart a richness to rooms destined to be used as libraries or home offices.

Faux finishes on interior walls are yet another touch that contributes to a look reminiscent of your grandparents' front room or parlor, Mr. Langille reports. Using a paint application technique performed by sponging and rag rolling, the multi-step paint process provides "an old look to a current wall," he says. "In some cases, it has a lacquer or varnish that provides something of a low-gloss appearance. You get a variegated look and texture to it."

As these descriptions suggest, investing a new home with a time-tested appearance and character isn't for those watching their budgets. "Creating the old world look comes at a higher price point," Mr. Langille says. "There's just more labor involved." □

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inherited property can be taxing

BY CHUCK GREEN

UNCLE SAM CERTAINLY CAN PUT a damper on inheriting property.

Be it a home, stocks, bonds or cash, any assets in a deceased's estate that exceed \$1.5 million are subject to an estate tax of more than 40%.

"If someone leaves their house and it's worth \$2 million, that's \$500,000 in excess of \$1.5 million, and as a piece of property passing from one generation to the next, it's subject to that estate tax," says Brian T. Whitlock, partner at the Chicago accounting firm of Blackman Kallick Bartelstein LLP. "As the recipient, I would have to come up with the money, or the uncle's estate, for instance, would. The estate is primarily responsible for the tax; the recipient is secondarily responsible and would be stuck paying the tax if the estate doesn't have enough funds."

Fortunately, adds Mr. Whitlock, who is also chairman of the Illinois CPA Society, very few people would have a \$2 million home and no other assets.

Should a beneficiary owe taxes on a home, forcing a possible sell, Dennis R. Kroner, financial advisor and CPA, UBS Services Inc., in Chicago, encourages individuals to

first do a close inspection.

"When people inherit real estate, they should physically visit it. Get to know the property and its condition, as well as the neighborhood. When people are indifferent, tax-wise, bad decisions can be made. They might



B. WHITLOCK

just sell with no regard for how much they get. Sometimes, especially with an inheritance, there's been a recent appraisal. People should get a copy to determine the property's worth," advises Mr. Kroner.

However, he believes, people typically are more focused on the money. "Based on what I've seen, people who inherit property really are interested not in property but in cash. So you have a lot of, I won't say forced selling, but uninformed selling."

In terms of selling, an inherited home that has served as a primary residence often is approached differently than, say, a vacation home or land, says Gary S. Hart, president of Northbrook-based Gary Hart & Associates Ltd.

+ OFFICE FROM PAGE B29

large blueprints, and product samples. From there, they can figure out what storage they require. In some cases, CD-ROM has eliminated the need to keep hard copies in file cabinets.

A home office is just that, so don't make it look like a commercial one. Mr. Waddell says many of his clients conceal office equipment such as printers and faxes when it's not in use so it does not become a home hardware display.

"I don't think people like to be reminded that they work at home. I

think that is a good thing to think about," he says.

Similarly, designer Tracy Holmes, president of Studio H Inc. in Chicago, advises to pick office equipment early so built-in cabinets and shelving to hide them can be chosen.

Are clients coming? If so, make sure local zoning laws permit them.

Homeowners need to think out how clients will access their office. In many cases, homeowners put the office near the front of the house on the first floor. Besides, clients don't want to be taken past dirty dishes in the kitchen sink when they transact business.

"Extras" for a home office abound, depending how much you want to spend and what you need to be comfortable. A wet bar, microwave, televisions, sound systems and even a multiple screen display of up-to-the-minute stock market activity are all possible.

The huge trend now in the TV market is flat screens inset into the wall. Mr. Waddell says they are an excellent solution to free up floor space for other equipment and furniture.

Desks, shelves and furniture should complement décor in other parts of the home.

"You want something beautiful because it is part of your home, but it has to be functional too. A lot of times, desks in commercial offices are ugly laminate. They are func-

"Usually, for emotional and financial reasons, people are motivated to sell a home they grew up in; they don't look at it as an investment. They don't want to pay the upkeep, the landscaping, insurance and real estate taxes. But if it's a vacation home and has some cache because it's in an upscale area and a family thinks it's going to be a great investment and might use it, or if it's land, people might keep it because of continued value."

Smaller inherited properties, particularly when tenants are involved, might be more practical to sell, says Mr. Whitlock.

"You probably won't be able to charge enough rent to keep a house you won't use yourself. Plus, who wants the headache of being a landlord in terms of having to worry about things like calls in the middle of the night? Do you want to be a landlord, or is it better to have a management agent? A management agent is easy to justify when you have apartment buildings and 30 or 40 units and don't want 30-40 calls a month, or to collect rent checks. I'd rather have an agent do that, but an agent is hard to justify when you only have one or two rental properties." □

tional but for your home office, you want a higher quality of finishes and materials," Ms. Holmes says.

Built-in shelving and cabinetry can be pricey, but de Aurora Showroom Inc. in the Merchandise Mart offers a different solution. Portable home office cabinets priced around \$10,000 appear to be an elegant armoire when doors are closed, but open to a complete office set-up. Unlike flat-front cabinets with no styling, these Country French and English style reproductions blend with other furniture.

Receding pocket doors open to a pullout keyboard, typing stand, space for up to a 19-inch monitor, hidden drawers, area for two printers, file drawers, pull-out desk, and central surge protector to plug everything into.

"You have plenty of functional work area too outside this cabinet because when the desk and keyboard pull out, you are sitting 25 inches from that cabinet," says Mark Blumenthal, chief operating officer at de Aurora.

If clients are coming, homeowners might want to tailor their décor to their profession. A lawyer, for instance, might want a formal looking office. A psychologist or tutor could pick something soothing. A graphic designer might want a stunning visual impression.

Floors will get a work out. Ms.

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