

# HOW TO **AVOID** THE PAIN OF **INFLATION** WITH **REAL ESTATE**

Inflation or generally rising prices reduces the value of money over time. Simply stated, you can buy less with each paycheck. Assets like real estate, gold, oil, and other commodities are classic inflation hedges because their values increase with prices. However, real estate offers many other ways than just buying commodities to protect and diversify your assets.

## Use Fixed Rate Loans

You should refinance all adjustable rate and balloon loans to long-term fixed rate loans. Another option, assuming you can make the payment even if your financial situation should worsen, is a cash-out refinance for investment or debt consolidation.

Residential real estate financing may be the best inflation hedge. You can borrow at very low rates, for long loan terms, and the interest is usually tax deductible. Fixed rate loans eliminate the risk of balloon payments and adjustable rates. Therefore, you only refinance to lower your rate.

When you borrow, you pay back the loan with money that is worth less than what you borrowed. You can also invest money conservatively, even in bonds, at rates that are higher than what you pay on your loan. Higher inflation creates a greater difference and an even larger benefit to borrowers.

Buy Now – If you plan to buy a new, upgrade, second, or retirement home in the next two-five years, buy now! Don't wait until rates and home prices are higher. Small changes will cost you more in the long run...

Consider a \$200,000 home today with 20 percent down on a 30-year fixed loan at 5 percent compared to the same house in 2 years for \$210,000 with the same loan at 6.5 percent. Only 5 percent more in price and 1.5 percent higher rate results in a payment that is 23.6 percent higher (\$858.91- \$1061.87). In 12 years, you will have paid \$15,993 more interest, even though you waited 2 years to buy. You would also owe \$20,252 more on your home. Buying now saves you \$36,245, which is far more than the taxes, insurance, etc. for the first two years.

## Own Investment Property

Residential rental property combines appreciation and rising rent rates with the benefits of fixed-rate loans to create an inflation-resistant long-term investment. Just make sure the rent covers the monthly expenses. You should also save 12 months worth of payments for any vacancies.

If you don't want to be a landlord, buy raw land. However, land financing is very different from home loans. Expect a much shorter loan term and have savings to pay off any balloon payment, or just pay cash.

Inflation is the biggest threat to your financial future because it robs you blind without ever taking a single dollar. Real estate provides flexibility that you can use to protect your wealth, diversifying away from volatile commodities.

The most surprising fact is how buying now can save you so much later.



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