<u>Income Producing Real Estate Investments</u>

Location! Location! Location! When looking at income producing real estate as an investment, nothing beats a great location. Buying into an area that is starting to grow or beginning to rejuvenate generally provides good appreciation of a property over the long term. However there are many other important factors to consider in an investment.

Probably the most important is that the property provides you with a positive cash flow. Calculate the expected rental income and deduct your anticipated mortgage payments, real estate taxes, insurance, repairs & maintenance, and any other expenses you would incur by holding the property. If the net result is still a positive cash flow, you are more likely to have a winner.

Another issue to consider in whether to invest in income producing real estate includes whether to hire a property manager or to manage the property yourself. If you do the management yourself, it helps if you are able to do minor repairs and don't mind being called by tenants to fix leaky pipes & such. Be sure to include the cost of a property manager in your cash flow forecast.

Rental real estate has limited tax benefits. You are permitted to write off depreciation on the building portion of your purchase while the land portion is not depreciated. Depreciation rates are 27.5 years for residential property and 39 years for non-residential property. Rental real estate is considered a passive activity for income tax purposes. Passive activity losses cannot offset income such as wages and investment income. However you can offset passive losses against other passive income. Under a special rule, if your other income is under $100,000, you can deduct up to $25,000 of rental real estate losses against other income from properties that you are an active participant in. This special allowance phases out when your other income reaches $150,000. The tax law regarding real estate is very complex and has numerous pitfalls and exceptions. Prior to investing in income producing real estate, speak to me or another tax advisor.

Real estate prices are driven by changes in your rental income. The more the rents increase, the more valuable the property generally becomes. The desirability and ultimate use of the property also drive real estate prices. Real estate is not a liquid investment since it often can take several months to sell a property. Buying a good property in a good location **at the right price** can provide you with an investment that may build equity and act as a good inflation hedge.