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The benefits of investment properties; The IDEAL investment

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Why Real Estate?

One way to describe the benefits of investment property is by using the acronym "IDEAL." Typically, when investing in investment real estate it generally provides the following economic rewards, which makes it one of the best investment vehicles available to us over the long term as well as a great inflation hedge.

IDEAL

"I" represents "Income." Every month the owner/investor or property management company hired by the owner/investor collects the rents on the property or properties owned. The owner/investor then pays the expenses and mortgage payment. The balance left over is called the cash flow before taxes (CFBT).

"D" represents "Depreciation," which is also called cost recovery. Our tax laws require us to write off the cost of the improvements such as the building over the recovery period in what is called a paper loss, which is a bookkeeping entry. This required paper loss is allowed even though the property may be growing in value. It creates a tax shelter today through the operational stage of ownership, but also creates a gain (profit) for tax purposes at time of disposition.

"E" represents "Equity build-up." Equity build-up is the reduction of the principal amount of a mortgage. A little of each payment reduces the amount owed on the loan, so when the property is liquidated the owner/investor owes less against the property.

"A" represents "Appreciation." Appreciation is the increase in value. In real estate investments it can come from several sources including inflation. Besides inflation, appreciation can take place through what we call forced inflation, which can happen through the efforts of the owner/investor. This is possible by making certain improvements to the subject property and in return by increasing the income, or by decreasing the expenses.

"L" represents "Leverage." Leverage is the use of other people's money. In real estate leverage tends to maximize the benefits, basically because it allows the owner/investors to buy and control more real estate with little dollars. By using leverage the owner/investor is able to increase the rate of return on the cash invested.

1031 EXCHANGE

By combining these benefits and with the use of Section 1031 of the Internal Revenue Code, the owner/investor has the opportunity to "PAY NO TAX" at time of disposition, through what's called a "deferred exchange." The owner/investor can dispose of their income producing or investment held property over a holding period and acquire other income producing or investment held property and defer both state and federal income tax based on their gain (profit) allowing the owner/investor to acquire more real estate. This process will create wealth much quicker because a hundred percent of the proceeds will be used for reinvestment purposes. In order to achieve this favorable process of disposition without making Uncle Sam your partner, the transaction must be set up through a professional "Qualified Intermediary" before the closing of the relinquished property can take place.

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