



## Smart real estate: Don't leave money on the table

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Historically, real estate ventures have been a popular investment vehicle for both active and passive investors. Any person in the real estate industry must have an on-going interest in the tax rules that apply to real property transactions. Real estate transactions tend to be more complex than those of commercial businesses, and most are non-routine. Accounting plays a large role in real estate transactions of all sizes - much larger than people realize.

This article is designed to take the mystery out of the many financial aspects of real estate ventures that often make people feel unsure about the decisions they make. By highlighting the key points to consider before going to the settlement table, this information can provide you with an understanding of the variables that can impact the final outcome of the deal.

What key advice would you give someone who is investing in or selling real estate?

- \* Examine your own goals, commitments and lifestyle. Decide if real estate is the right choice for you. Owning real estate can be very rewarding - and stressful.
- \* Know yourself! In order to be successful owning real estate, you must wear many hats. You should have an understanding of accounting, taxation, law, property management and construction.
- \* Do your homework before entering into a deal. Where your property is located will be one of the most influential factors in determining the property's value. Become familiar with the neighborhood environment and the real estate needs and opportunities in the community.
- \* Seek the right guidance and advice from professionals (your accountant and lawyer) to increase your understanding of the many subject matters pertaining to real estate.
- \* Consider the financial requirements of the transaction and investigate potential lenders in advance.
- \* Real estate ownership, taxation and cash flow are key factors to consider in evaluating the financial success of owning your property. Projections should be prepared to calculate the estimated after-tax return on your investment over a period of five to ten years.
- \* Plan ahead to take advantage of tax benefits associated with the property. Consider having a cost segregation study prepared by your accountant to use accelerated depreciation deductions to improve investment returns. Generally 15-50% of building costs can be segregated into 5, 7, or 15-year lives instead of a 39-year life. If you are rehabilitating a property, consider the two-tier rehabilitation credit.
- \* If you are selling a property and are interested in maintaining an income stream, consider an installment sale.
- \* Capital losses from security investments can be used to offset gains from the sale of real estate.

What should you know about real estate before settling?

- \* Know the strengths and weaknesses of the property's location.
- \* Know your competition and become familiar with comparable properties in the immediate and neighboring communities.

- \* Investigate proposed building and development plans for the community.
- \* Are there any environmental issues you need to be aware of?
- \* Have the property inspected by an architect and/or engineer. Know the property's condition and what repairs and improvements will be needed.
  
- \* Consider the resale value if you are buying real estate strictly for investment purposes.
- \* Determine how much of a mortgage you will qualify for. Have your credit checked.
  
- \* Is the property zoned for its intended use?
- \* For a commercial property, obtain tenant lease information.
- \* Review the history of real estate taxes. Are any real estate tax increases being proposed by the community?

At the closing table, stay calm! Things can go wrong. It's an exciting and stressful time during which a lot of legal and financial information will be presented to you. Have your accounting and legal advisors close at hand.

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