FREE REPORT # 25 From Gary & Lynn Pakulla

INVESTORS: The Best Way To Invest In Real Estate Today!

Purchasing a rental property may be for you - especially in today's real estate market - if you are looking for a way to increase your personal wealth. Of course, we can't expect sky-high appreciation rates all the time and one thing about real estate, particularly land, they're not making it any more! With the continued increase in population and area growth demand, values will continue to increase. And how many times have you heard someone say, I wish I had bought property back when prices were low? Today we must look at a residential market in which a well-chosen, well-managed rental property of one to four units can be the "shining star" in any investor's portfolio. The key to success is doing your homework and making sure that the numbers work in your favor. If you bought your own home, you already have realized the financial advantages of real estate ownership. The following report will give a brief overview of the many ways you can profit from owning rental real estate today.

1. **Investment properties can lower your taxes.** Investors tax incentives can be substantial. Some investors can use deductions from rental property assets to offset some of their wage income. Other investors, while not eligible for the offset, can avoid owing taxes on their rental income by showing adequate expenses and deductions. Even if rental payments do not cover the investor's expenses, tax breaks may actually make up the difference or more. As an investor, you can claim deductions for actual costs you incur for financing, managing, and operating the rental property. That means mortgage interest payments, real estate taxes, insurance, maintenance, repairs, property management fees, travel, advertising, and utilities if not paid for by the tenant, can all be deductions. All can be subtracted from your adjusted gross income when figuring your personal income taxes up to the amount of real estate income you receive. Also,

don’t forget about depreciation. The tax code assumes buildings and improvements wear out over time. These losses are deductible from income, regardless of the property’s actual market value.

2. **Have a positive cash flow.** Positive cash flow results when the rent you receive exceeds the total you pay for the mortgage, taxes, insurance, maintenance, and other costs. That’s not at all as hard as it sounds. First, decide whether you need a positive cash flow before or after taxes. A pre-tax positive cash flow translates into current income, a goal of many retired investors and others with current expenses. Properties yielding a pre-tax positive cash flow are harder, but certainly not impossible, to find. Be aware that not all properties will yield rental income which is high enough to cover your expenses. Make sure you know how much rent to expect by researching rents for similar units nearby, the property’s current rental fee, and that of the last increase.

   A positive after-tax cash flow can come from a negative pre-tax cash flow. Generally, the depreciation deduction makes up the difference. If you meet the eligibility test, you’ll be able to use the depreciation to shelter some of your taxable income and reduce your tax bill. Second, you’ll want to ensure your tenants make timely rent payments and take care of the property. Of course, a positive cash flow is impossible without income. A thorough credit, employment and landlord check of any potential tenants is a must and will help you track down the best renters.

3. **Use leverage**. As an investor, you magnify the returns on your investment by borrowing a large part of the purchase price using the bank’s money! That is, by limiting the amount of cash you invest, you make your cash go farther. Leverage means using borrowed money to increase equity. And equity - the difference between what the property is worth and the balance owed on the mortgage - is what’s important when figuring out whether your dollars are wisely invested.

4. **Benefit from growing equity.** Even at a modest rate of appreciation, real estate will yield a higher return on the cash investment than most other financial investments, such as bonds or long-term CD's. Each mortgage principal payment you make is a payment to yourself. You build equity as your mortgage principal is paid down, even if your investment property doesn't increase in value. Although homes in different parts of town may appreciate at entirely different rates, the key is to have a knowledgeable professional carefully guiding you through the steps. Know how much equity you have and learn to use it to leverage into other properties; then watch your real estate portfolio and your personal wealth grow!

Choose your agent wisely. Working with a full-time professional real estate agent is a must. Choose your agent by asking questions of him or her. Find out how knowledgeable they are about houses currently for sale in your price range and also of houses that have recently sold. Does your agent work with a good lender that has the reputation of excellent service and low rates to assist you in obtaining financing? Does your agent ask questions of you in order to have a full understanding of what you are looking for and to help you to find the best property for you?

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